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THE QUÉBEC ECONOMIC PLAN

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Budget 2015-2016
The Québec Economic Plan

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THE QUÉBEC ECONOMIC PLAN

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HIGHLIGHTS

Budget 2015-2016 marks the return to fiscal balance. It is in keeping with Budget 2014-2015 and the December 2014 Update in that it reaffirms the government's economic and fiscal policy directions. The government's Economic Plan provides for:

- the return to sound, balanced public finances;
- the creation of favourable conditions for economic growth.

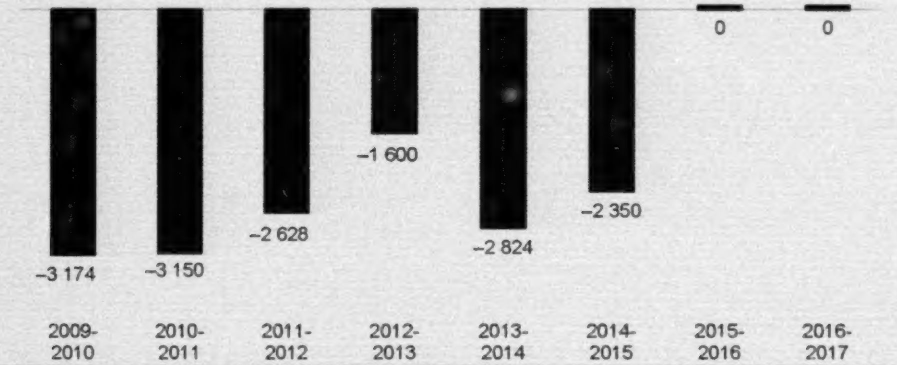
More specifically, the government maintains the following policy directions:

- the return to a balanced budget as of 2015-2016;
- alignment of spending growth with taxpayers' ability to pay;
- adequate funding of public services;
- maintenance of a high level of public capital investments;
- an economic plan to foster growth of the economy and employment;
- reduction of the tax burden on taxpayers;
- ongoing debt reduction, a commitment to future generations.

Budget 2015-2016 intends to support economic growth through the initiatives provided for in The Québec Economic Plan.

CHART 1

Budgetary balance[1] from 2009-2010 to 2016-2017
(millions of dollars)



[1] Budgetary balance within the meaning of the *Balanced Budget Act*.

RETURN TO FISCAL BALANCE IN 2015-2016

The consolidated financial framework shows a deficit of $2 350 million in 2014-2015. A balanced budget is anticipated starting in 2015-2016.

Expenditure growth will be below revenue growth.

- Consolidated expenditure will grow by 1.5% in 2015-2016 and 2.1% in 2016-2017. For the same two years, revenue will grow by 4.3% and 3.1% respectively, taking into account economic growth and the various measures announced since June 2014.
- In 2014-2015, growth in expenditure excluding debt service was reduced to 2.9%, a slowdown compared to the 4.7% growth rate recorded the previous year.

The budgetary objectives will be met while maintaining deposits of dedicated revenues in the Generations Fund. These deposits will total $1 586 million in 2015-2016 and $2 236 million in 2016-2017.

TABLE 1

Consolidated summary financial framework – Budget 2015-2016
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 293	80 716	83 362
% change	*3.5*	*4.4*	*3.3*
Federal transfers	18 720	19 444	19 929
% change	*0.9*	*3.9*	*2.5*
Consolidated revenue	**96 013**	**100 160**	**103 291**
% change	***3.0***	***4.3***	***3.1***
Expenditure	–86 777	–88 091	–89 721
% change	*2.9*	*1.5*	*1.9*
Debt service	–10 333	–10 483	–10 934
% change	*–2.5*	*1.5*	*4.3*
Consolidated expenditure	**–97 110**	**–98 574**	**–100 655**
% change	***2.3***	***1.5***	***2.1***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236
BUDGETARY BALANCE[1]	**–2 350**	**—**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

ACCELERATION OF ECONOMIC GROWTH IN QUÉBEC

After reaching a low in 2013, with real GDP growth of 1.0%, the Québec economy entered a clear recovery. Economic growth firmed up in 2014 and real GDP rose by 1.5%.

— Real GDP growth in 2014 was driven primarily by exports. More specifically, according to Customs-basis statistics, international goods exports rose by 10.9% in real terms in 2014.

Québec's economy will continue to strengthen. Real GDP growth is forecast to accelerate to a rate of 2.0% in 2015 and 2016.

— Québec will continue to benefit from a significant contribution from foreign trade, fuelled by faster economic growth in the United States, one of Québec's main trading partners, and the lower Canadian dollar.

— Economic growth will also be supported by a greater contribution from domestic demand. The recent downturn in oil prices will be very positive for Québec, which imports all of its oil. Households and businesses will benefit from the impact of lower oil prices on fuel costs.

TABLE 2

Economic growth outlook

(real GDP, percentage change)

	2013	2014	2015	2016
Québec	1.0	1.5	2.0	2.0
Canada	2.0	2.4	2.0	2.2
United States	2.2	2.4	2.9	2.7

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

MEASURES TO RETURN TO A BALANCED BUDGET

Budget 2015-2016 confirms that all of the measures necessary to balance the budget in 2015-2016 have been identified. Without measures, the deficit would have been $7 274 million.

- Budget 2014-2015 identified 50% of the effort, most of which is focused on controlling government spending.
- While still focusing on controlling spending and reducing tax expenditures, the December 2014 Update identified additional measures representing 34% of the required effort.
- As forecast, Expenditure Budget 2015-2016 incorporates the remainder of the efforts required, totalling $1 187 million, or 16% of the efforts.

TABLE 3

Actions to balance the budget in 2015-2016
(millions of dollars)

BUDGETARY BALANCE BEFORE MEASURES — BUDGET 2014-2015[1]	**–7 274**	**Share of identified effort**
MEASURES – BUDGET 2014-2015		
Control of government spending	3 078	
Reduction of tax expenditures	348	
Use of the contingency reserve	200	
Total measures – Budget 2014-2015	**3 626**	**50%**
MEASURES – DECEMBER 2014		
Control of government spending		
Reduction of the cost of public services	1 125	
Program review measures	736	
Subtotal	**1 861**	
Reduction of tax expenditures	600	
Total measures – December 2014	**2 461**	**34%**
MEASURES – EXPENDITURE BUDGET 2015-2016	**1 187**	**16%**
BUDGETARY BALANCE – BUDGET 2015-2016	**—**	**100%**

(1) Excluding the $49-million impact of the revenue measures and economic recovery plan announced in the June 2014 budget and the $285-million downward adjustment to renewal costs, the budgetary balance before measures would be –$7 608 million for 2015-2016, that is, the same as the balance forecast in Budget 2014-2015 (*Budget 2014-2015 – Budget Plan*, p. A.21).

Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

ECONOMIC MEASURES TO FOSTER GROWTH

The government is implementing a plan to support growth and economic development in Québec.

With The Québec Economic Plan, the government aims to:

- offer an initial response to the recommendations of the Québec Taxation Review Committee and, to that end, is planning substantial tax relief for individuals and corporations;
  - In particular, the health contribution will be gradually eliminated as of January 1, 2017.
- move forward with major initiatives to foster the development of the economy and meet Québec's economic challenges.

The set of actions provided for in The Québec Economic Plan will total $3.4 billion over the coming years, including $2.5 billion in tax relief.

The Economic Plan is funded essentially by the use of the budget surpluses projected in Budget 2014-2015.

TABLE 4

Financial impact of the measures of The Québec Economic Plan
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Easing of the tax burden on individuals	—	–141	–446	–628	–803	**–2 017**
Easing of the tax burden on corporations	–11	–69	–80	–129	–216	**–504**
Subtotal	**–11**	**–210**	**–526**	**–757**	**–1 018**	**–2 521**
New initiatives to foster the performance of the labour market	–26	–38	–34	–35	–35	**–166**
New initiatives to stimulate private investment	–43	–66	–106	–93	–99	**–406**
New initiatives for communities and culture	–42	–48	–42	–49	–129	**–309**
Subtotal	**–110**	**–151**	**–182**	**–176**	**–262**	**–882**
TOTAL	**–121**	**–361**	**–708**	**–933**	**–1 280**	**–3 403**

Note: A negative entry entails a cost for the government.

CAPITAL INVESTMENTS AND THE DEBT

☐ Maintenance of a high level of public capital investments

Investments in the 2015-2025 Québec Infrastructure Plan will stand at $88.4 billion. This high level of public investment planned for the coming years will provide powerful stimulus for economic activity and job creation in every region of Québec.

— In order to plan new priorities in the short term, investment is being accelerated in $1.4 billion worth of projects over the next four years, out of the total funding allocated to the plan.

☐ Reduction of the debt burden starting in 2015-2016

The government is maintaining its debt reduction objectives by continuing to make deposits in the Generations Fund. The following debt reduction objectives are set for 2025-2026:

— 45% of GDP for the gross debt;

— 17% of GDP for the debt representing accumulated deficits.

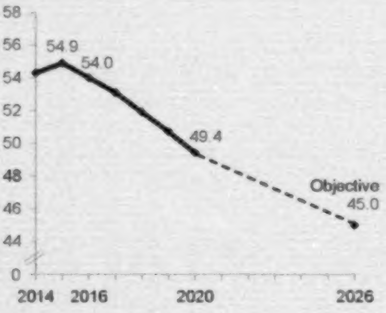
The gross debt burden will stand at 54.9% of GDP as at March 31, 2015. It is expected to be 54.0% of GDP as at March 31, 2016, a decrease of 0.9 percentage point. This decrease is a major step toward the government's achieving the set debt reduction objectives.

Deposits in the Generations Fund are drawn from various revenue sources, in particular water-power royalties, annual indexation of the price of heritage electricity, the specific tax on alcoholic beverages, and all mining revenues as of 2015-2016.

CHART 2

Gross debt as at March 31

(as a percentage of GDP)

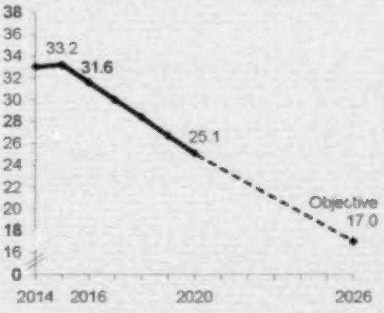


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART 3

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

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INTRODUCTION

Budget 2014-2015 presented the government's plan for restoring sound public finances and spurring economic recovery. Balancing the budget will be an opportunity for Québec to make a fresh start.

This section provides an overview of the government's economic and fiscal policy directions and the means put into place for implementing them in the coming year and years thereafter.[1]

This section presents:

- the government's economic and fiscal policy directions;
  - Budget 2015-2016 marks the return to fiscal balance. This objective is being achieved essentially through spending control.
  - An acceleration of economic and revenue growth, coupled with a slowdown in spending growth, will make it possible to keep the budget balanced for the period covered by the financial framework while ensuring adequate funding for public services.
  - The government is also maintaining the debt reduction objectives and continuing its investment in public infrastructure.
  - Once fiscal balance has been restored in 2015-2016, the government plans to gradually reduce the tax burden of individuals and businesses starting in 2017.
- The Québec Economic Plan;
  - The plan includes major initiatives to foster Québec's economic growth and address the related challenges, i.e. increase productivity and raise the employment rate.
  - It presents the first responses to the Québec Taxation Review Committee's recommendations and, in that regard, provides for significant tax relief for individuals and corporations.
- Actions to ensure disciplined management of public finances.
  - These actions include new initiatives to limit spending growth and improve budget management within all public bodies.

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[1] Unless otherwise indicated, this document hinges on data available as at March 13, 2015. In addition, throughout this section, the budgetary data for 2014-2015 and those for subsequent

1. THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

Through Budget 2014-2015 and the December 2014 *Update on Québec's Economic and Financial Situation,* the government introduced measures to restore sound public finances on a sustainable basis and ensure economic recovery and job growth.

To assist in the review of existing programs and the Québec taxation system, the government created two committees:

— the Ongoing Program Review Committee, whose mandate is to examine spending and propose possible solutions regarding the relevance, effectiveness, efficiency and financing of programs, and review existing structures;

— the Québec Taxation Review Committee, tasked with providing a clear picture of the Québec taxation system and recommending changes to ensure adequate funding for public services while fostering economic growth.

Budget 2015-2016 marks the return to fiscal balance and reaffirms the government's economic and fiscal policy directions. The government's economic plan provides for:

— the return to sound, balanced public finances;

— the creation of favourable conditions for economic growth.

The government's action is in keeping with the recommendations of international bodies that government management be based on two levers: sound fiscal management and structuring measures to support the economy.

1.1 Acceleration of economic growth in Québec

After reaching a low in 2013, with real GDP growth of 1.0%, the Québec economy entered a clear recovery. Economic growth firmed up in 2014 and real GDP rose by 1.5%.

— Real GDP growth in 2014 was driven primarily by exports. More specifically, according to Customs-basis statistics, international goods exports rose by 10.9% in real terms in 2014.

Québec's economy will continue to strengthen. Real GDP growth is forecast to accelerate to a rate of 2.0% in 2015 and 2016.

— Québec will continue to benefit from a significant contribution from foreign trade, fuelled by faster economic growth in the United States, one of Québec's main trading partners, and the lower Canadian dollar.

— Economic growth will also be supported by a greater contribution from domestic demand. The recent downturn in oil prices will be very positive for Québec, which imports all of its oil. Households and businesses will benefit from the impact of lower oil prices on fuel costs.

TABLE A.1

Economic growth outlook
(real GDP, percentage change)

	2013	2014	2015	2016
Québec	1.0	1.5	2.0	2.0
Canada	2.0	2.4	2.0	2.2
United States	2.2	2.4	2.9	2.7

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

1.2 Sound, balanced public finances

The government pledged to restore a sustainable balance in public finances. It chose to balance the budget in 2015-2016 following six consecutive years of deficit. Achieving this government objective requires:

- disciplined management of public finances through continued spending control;
  - A sustainable balance in public finances demands that spending be determined according to taxpayers' ability to pay and always implemented with a view to efficiency and effectiveness.
- debt reduction for the benefit of all Quebecers, present and future generations.
  - Fiscal 2015-2016 marks an important milestone: the weight of the debt in the economy will start to decline. In addition, the government is maintaining the debt reduction targets from this year to 2025-2026.

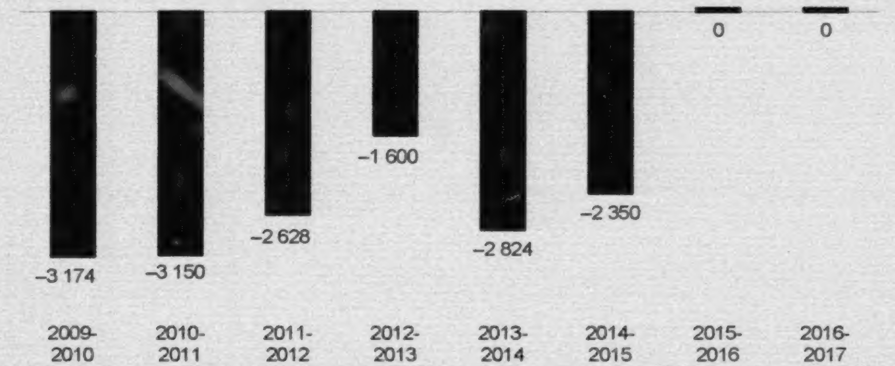
1.2.1 A return to fiscal balance in 2015-2016

Budget 2015-2016 confirms that fiscal balance will be restored in 2015-2016, as planned, and maintained thereafter.

- The forecast deficit for 2014-2015 remains at $2 350 million.

CHART A.1

Budgetary balance[1] from 2009-2010 to 2016-2017
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

☐ Maintenance of budgetary objectives

The consolidated financial framework shows a deficit of $2 350 million in 2014-2015. A balanced budget is anticipated starting in 2015-2016.

Expenditure growth will be below revenue growth.

- Consolidated expenditure will grow by 1.5% in 2015-2016 and 2.1% in 2016-2017. For the same two years, revenue will grow by 4.3% and 3.1%, respectively, taking into account economic growth and the various measures announced since June 2014.
- In 2014-2015, growth in consolidated expenditure excluding debt service was reduced to 2.9%, a slowdown compared to the 4.7% growth rate recorded the previous year.

The budgetary objectives will be met while maintaining deposits of dedicated revenues in the Generations Fund. These deposits will total $1 586 million in 2015-2016 and $2 236 million in 2016-2017.

TABLE A.2

Consolidated summary financial framework – Budget 2015-2016
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 293	80 716	83 362
% change	*3.5*	*4.4*	*3.3*
Federal transfers	18 720	19 444	19 929
% change	*0.9*	*3.9*	*2.5*
Consolidated revenue	**96 013**	**100 160**	**103 291**
% change	***3.0***	***4.3***	***3.1***
Expenditure	–86 777	–88 091	–89 721
% change	*2.9*	*1.5*	*1.9*
Debt service	–10 333	–10 483	–10 934
% change	*–2.5*	*1.5*	*4.3*
Consolidated expenditure	**–97 110**	**–98 574**	**–100 655**
% change	***2.3***	***1.5***	***2.1***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236
BUDGETARY BALANCE(1)	**–2 350**	**—**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

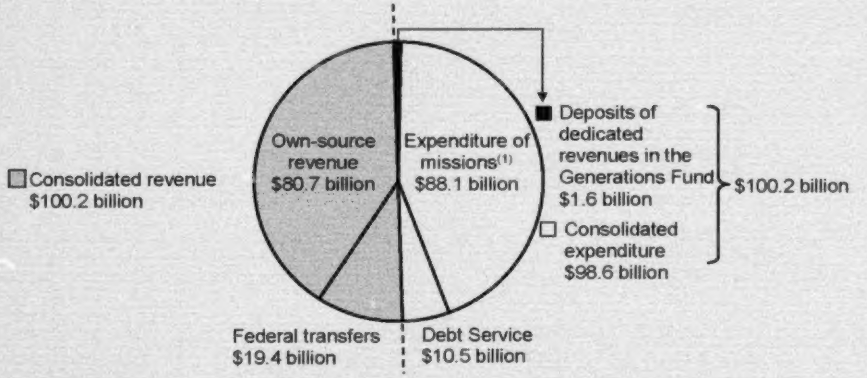
❑ Breakdown of the government's revenue and expenditure

In 2015-2016, the government's consolidated revenue will stand at $100.2 billion, enough to finance:

- expenditures for the government's various missions, i.e. spending for the government's core activities, totalling $88.1 billion;
- debt service, for a total of $10.5 billion;
- deposits of dedicated revenues in the Generations Fund, totalling $1.6 billion.

CHART A.2

Breakdown of the government's consolidated revenue and expenditure for 2015-2016
(billions of dollars)



Note: Totals may not add due to rounding.

(1) The missions represent the government's primary functions: Health and Social Services, Education and Culture, Economy and Environment, Support for Individuals and Families, and Administration and Justice.

TABLE A.3

Detailed consolidated financial framework for 2014-2015 to 2016-2017

(millions of dollars)

	2014-2015	2015-2016	2016-2017
Consolidated revenue			
Personal income tax	26 945	28 218	29 532
Contributions for health services	6 443	6 571	6 656
Corporate taxes	5 723	6 447	6 774
School property tax	1 909	2 030	2 109
Consumption taxes	17 916	18 601	18 606
Duties and permits	2 490	2 755	2 761
Miscellaneous revenue	9 348	9 651	9 893
Government enterprises	5 266	4 857	4 795
Generations Fund revenue	1 253	1 586	2 236
Own-source revenue	**77 293**	**80 716**	**83 362**
% change	***3.5***	***4.4***	***3.3***
Federal transfers	18 720	19 444	19 929
Total consolidated revenue	**96 013**	**100 160**	**103 291**
% change	***3.0***	***4.3***	***3.1***
Consolidated expenditure			
Health and Social Services	37 153	37 688	38 725
Education and Culture	20 897	21 074	21 615
Economy and Environment	12 252	12 701	12 576
Support for Individuals and Families	9 518	9 302	9 392
Administration and Justice	6 957	7 326	7 413
Expenditure	**–86 777**	**–88 091**	**–89 721**
% change	***2.9***	***1.5***	***1.9***
Debt service	–10 333	–10 483	–10 934
Total consolidated expenditure	**–97 110**	**–98 574**	**–100 655**
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Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236
BUDGETARY BALANCE[1]	**–2 350**	**—**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

☐ Summary of adjustments to the financial framework

The financial framework established for Budget 2015-2016 maintains the government's budgetary objectives relative to Budget 2014-2015.

Overall, the economic situation brings positive adjustments to the financial framework. Thus,

— in 2014-2015, the decline in debt service offset the lower-than-anticipated own-source revenue.

— in 2015-2016 and 2016-2017, the positive adjustments make it possible to both balance the budget and fund implementation of the government's economic plan.

TABLE A.4

Adjustments to the financial framework since Budget 2014-2025
(millions of dollars)

	2014-2015	2015-2016	2016-2017
BUDGETARY BALANCE – BUDGET 2014-2015	**–2 350**	**—**	**—**
ADJUSTMENTS RELATED TO THE ECONOMY			
Own-source revenue	–317	–166	–274
Federal transfers	141	132	238
Debt service	419	346	298
SUBTOTAL – ADJUSTMENTS RELATED TO THE ECONOMY	**243**	**312**	**262**
Economic recovery measures announced in the December 2014 Update	**–17**	**–86**	**–91**
ECONOMIC PLAN			
Gradual elimination of the progressive health contribution	—	—	–81
Fiscal measures and other initiatives	—	–21	–180
Program spending related to The Québec Economic Plan	—	–100	–100
SUBTOTAL – THE QUÉBEC ECONOMIC PLAN	**—**	**–121**	**–361**
PROGRAM SPENDING			
Increase in program spending(1)		–219	–158
Funding of spending increase			
Fiscal measures related to the transitionnal fiscal pact with municipalities		130	130
Financing of activities previously ensured by Loto-Québec and other measures		89	28
SUBTOTAL – PROGRAM SPENDING	**—**	**—**	**—**
Consolidated entities and other adjustments(2)	**–226**	**–105**	**190**
BUDGETARY BALANCE – BUDGET 2015-2016	**–2 350**	**—**	**—**

(1) Including the sum of $100 million for The Québec Economic Plan, the total spending increase is $319 million in 2015-2016 and $258 million in 2016-2017.

(2) Includes adjustments related to consolidated entities and consolidation adjustments.

Adjustments related to the economy

Positive adjustments related to the economy total $243 million in 2014-2015, $312 million in 2015-2016 and $262 million in 2016-2017.

Growth in own-source revenue is continuing to accelerate. Own-source revenue is nevertheless adjusted downward by $317 million in 2014-2015, $166 million in 2015-2016 and $274 million in 2016-2017.

— The adjustments are mainly attributable to a lower-than-anticipated level of personal income tax and are mitigated by, in particular, higher revenue from consumption taxes.

— The adjustments for 2014-2015 are partially offset by the better results of government enterprises, primarily due to higher-than-anticipated earnings by Hydro-Québec.

The downward adjustments are more than offset by:

— a downward adjustment in debt service of $419 million in 2014-2015, $346 million in 2015-2016 and $298 million in 2016-2017, due to lower-than-anticipated interest rates;

— federal transfer increases of $141 million in 2014-2015, $132 million in 2015-2016 and $238 million in 2016-2017.

The Québec Economic Plan

The government measures contained in Budget 2015-2016 to accelerate economic and employment growth total $121 million in 2015-2016 and $361 million in 2016-2017.

— The measures include, in particular, gradual elimination of the progressive health contribution as of January 1, 2017, which will have a total financial impact of $81 million in 2016-2017 and reach $744 million in 2019-2020.

Program spending

In relation to Budget 2014-2015, program spending will increase by $319 million in 2015-2016 and $258 million in 2016-2017. These adjustments are essentially offset by a reduction in the QST refund to municipalities under the transitional fiscal pact reached in fall 2014, and an increase in revenues from Loto-Québec, which previously financed certain government expenditures unrelated to its mission.

A breakdown of all of the adjustments is provided in Section D of this document.

1.2.2 Disciplined spending management

Budget 2015-2016 confirms that all of the measures necessary to balance the budget in 2015-2016 have been identified. Without measures, the deficit would have been $7 274 million.

— Budget 2014-2015 identified 50% of the effort, most of which is focused on controlling government spending.

— While still focusing on controlling spending and reducing tax expenditures, the December 2014 Update identified additional measures representing 34% of the required effort.

— As forecast, Expenditure Budget 2015-2016 incorporates the remainder of the efforts required, totalling $1 187 million, or 16% of the efforts.

TABLE A.5

Actions to balance the budget in 2015-2016
(millions of dollars)

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Reduction of tax expenditures	348	
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MEASURES – EXPENDITURE BUDGET 2015-2016	**1 187**	**16%**
BUDGETARY BALANCE – BUDGET 2015-2016	**—**	**100%**

(1) Excluding the $49-million impact of the revenue measures and economic recovery plan announced in the June 2014 budget and the $285-million downward adjustment to renewal costs, the budgetary balance before measures would be –$7 608 million for 2015-2016, that is, the same as the balance forecast in Budget 2014-2015 (*Budget 2014-2015 – Budget Plan*, p. A.21).

Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

❑ Measures announced in Budget 2014-2015

Budget 2014-2015 presented a plan for restoring sound public finances and returning to a balanced budget. Overall, these measures totalled $3.6 billion.

Several measures have been implemented to control government spending, in particular:

- spending control measures within government departments, bodies and enterprises, totalling $2.6 billion;
- control of staffing levels generating savings of $500 million, including a general freeze on staffing levels in the public and parapublic sectors in 2015-2016 to slow the growth of remuneration expenditures;
- immediate tightening of tax expenditures for a total of $348 million.

TABLE A.6

Measures announced in Budget 2014-2015
(millions of dollars)

	2015-2016
Control of government spending	
Contribution from departments and bodies	2 406
Efforts by non-budget-funded bodies and special funds	70
Contribution from government enterprises	102
Control of staffing levels	500
Subtotal	**3 078**
Reduction in tax expenditures	
Elimination or suspension of certain fiscal measures announced since September 2012	56
20% reduction in the rates of tax credits	270
Caps on fiscal measures for business capitalization	22
Subtotal	**348**
Use of the contingency reserve	**200**
MEASURES ANNOUNCED IN BUDGET 2014-2015	**3 626**

Source: Ministère des Finances du Québec, *Budget 2014-2015 – Budget Plan*, p. A.21.

Measures announced in the December 2014 Update

The December 2014 Update included several measures to achieve the targets set in the June 2014 budget.

Control of government spending

The measures related to budget programs total $1 861 million, consisting of $1 125 million through a reduction in the cost of public services and $736 million through program review.

TABLE A.7

Budgetary measures announced in the December 2014 Update
(millions of dollars)

	2015-2016
Reduction in the cost of public services	
Limit the factors related to compensation expenditures in 2015-2016	689
Compensation spreading for physicians	194
Suspension of bonuses paid to senior executives and management personnel of government departments and agencies	42
Reduction in the contingency reserve for additional requirements	200
Subtotal – Reduction in the cost of public services	**1 125**
Program review measures	
Changes to the organization and governance of the health and social services network	55
Adoption of best practices to improve the appropriateness of health care and social services	150
Transitional fiscal pact concerning financial transfers to municipalities for 2015	300
Adjustment of childcare funding	193
Adjustment of fee exemptions for international university students	12
Adjustment of the fine-related penal contribution	21
Funding of operations relative to the administration of unclaimed property	5
Review of tax assistance for assisted procreation(1)	—
Subtotal – Program review measures	**736**
TOTAL BUDGETARY MEASURES ANNOUNCED IN UPDATE	**1 861**

(1) The budgetary impact was already taken into account in Budget 2014-2015.

■ Reduction in tax expenditures

The government has announced measures to tighten tax expenditures, some of which were inspired by the recommendations in the Québec Taxation Review Committee's interim report of October 31, 2014. The tax expenditure measures identified in the December 2014 Update total $600 million, consisting of:

— $338 million for corporations;

— $262 million for individuals.

TABLE A.8

Tax expenditure measures
(millions of dollars)

	2015-2016
Measures concerning corporations	338
Measures concerning individuals	262
TOTAL	**600**

Source: Ministère des Finances du Québec, *Update on Québec's Economic and Financial Situation*, December 2, 2014, p. D.34.

☐ Measures included in Expenditure Budget 2015-2016

The remaining effort required, totalling $1 187 million, was made in government departments and bodies.

Of that amount, $1 029 million comes from departments and budget-funded bodies and the remaining amount, from non-budget-funded entities.

International Monetary Fund report: an encouragement to continue efforts to restore sound public finances

In its January 2015 staff report[1] on Canada's economic developments and policies, the International Monetary Fund (IMF) says that the Canadian provinces need to sustain their efforts to strengthen public finances, especially in light of longer-term aging-related pressures. Such efforts are especially called for in the provinces with the highest stock of public debt, such as Québec.

Means for supporting fiscal consolidation

The IMF report recommends several ways Canadian provinces can proceed with fiscal consolidation. First, they need to strengthen their fiscal frameworks, through the following means in particular:

- a permanent framework for strategic spending reviews to help control spending and making regular program reviews an integral part of the provinces' budgetary frameworks;
- medium-term ceilings on spending to support the implementation of balanced budget rules currently in place.

In addition, efforts to contain health care spending need to continue. Demographic factors are still expected to exert a strong upward pressure on health care spending in the coming years. Containing this spending is vital to ensuring long-term sustainability of public finances.

- Containing health care costs on a sustainable basis and increasing efficiency demand permanent structural adjustments rather than temporary cost compression.
- The IMF applauds the reforms implemented by some of the provinces, such as moving toward patient-based funding models for hospitals, increasing out-of-hospital care and consolidating purchases of drugs, medical supplies and equipment.

As it does for other jurisdictions, the IMF recommends that, in addition to pursuing fiscal consolidation, Canada implement structural reforms to boost productivity and business investment in order to support medium-term growth.

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[1] International Monetary Fund, *Canada: 2014 Article IV Consultation – Staff Report; Staff Statement; and Press Release*, IMF Country Report No. 15/22, January 2015.

1.3 The government's five-year financial framework

The government's five-year budgetary outlook presents the consolidated financial framework for 2014-2015 to 2019-2020.

Following a deficit of $2 350 million in 2014-2015, the government expects to achieve and maintain a balanced budget as of 2015-2016.

- Consolidated revenue is expected to grow by 4.3% in 2015-2016 and 3.1% in 2016-2017.
- The forecast growth rates for consolidated expenditure for the same years are 1.5% and 2.1%, respectively.

The financial framework includes contingency reserves of $400 million starting in 2016-2017.

Once the budget has been balanced, revenue will remain above expenditure so that the necessary deposits of dedicated revenues can be made in the Generations Fund to reduce the debt.

- These deposits will total $1 586 million in 2015-2016 and $2 236 million in 2016-2017.

TABLE A.9

Consolidated financial framework from 2014-2015 to 2019-2020

(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Consolidated revenue						
Personal income tax	26 945	28 218	29 532	30 579	31 722	32 922
Contributions for health services	6 443	6 571	6 656	6 455	6 427	6 402
Corporate taxes	5 723	6 447	6 774	6 983	7 165	7 254
School property tax	1 909	2 030	2 109	2 166	2 214	2 265
Consumption taxes	17 916	18 601	18 606	18 979	19 217	19 409
Duties and permits	2 490	2 755	2 761	2 721	2 660	2 687
Miscellaneous revenue	9 348	9 651	9 893	10 126	10 404	10 821
Government enterprises	5 266	4 857	4 795	4 773	4 752	4 733
Generations Fund revenue	1 253	1 586	2 236	2 765	3 085	3 446
Own-source revenue	**77 293**	**80 716**	**83 362**	**85 547**	**87 646**	**89 939**
% change	***3.5***	***4.4***	***3.3***	***2.6***	***2.5***	***2.6***
Federal transfers	18 720	19 444	19 929	20 337	20 674	21 143
% change	*0.9*	*3.9*	*2.5*	*2.0*	*1.7*	*2.3*
Total consolidated revenue	**96 013**	**100 160**	**103 291**	**105 884**	**108 320**	**111 082**
% change	***3.0***	***4.3***	***3.1***	***2.5***	***2.3***	***2.5***
Consolidated expenditure						
Expenditure	–86 777	–88 091	–89 721	–91 590	–93 462	–95 669
% change	*2.9*	*1.5*	*1.9*	*2.1*	*2.0*	*2.4*
Debt service	–10 333	–10 483	–10 934	–11 129	–11 373	–11 567
Total consolidated expenditure	**–97 110**	**–98 574**	**–100 655**	**–102 719**	**–104 835**	**–107 236**
% change	***2.3***	***1.5***	***2.1***	***2.1***	***2.1***	***2.3***
Contingency reserve	—	—	–400	–400	–400	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**	**2 765**	**3 085**	**3 446**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236	–2 765	–3 085	–3 446
BUDGETARY BALANCE[1]	**–2 350**	—	—	—	—	—

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

Financial framework for the general fund and consolidated entities

Financial framework for the general fund and consolidated entities from 2014-2015 to 2019-2020
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
GENERAL FUND						
Budgetary revenue						
Own-source revenue excluding government enterprises	49 073	52 279	54 160	55 778	57 362	58 876
% change	*2.6*	*6.5*	*3.6*	*3.0*	*2.8*	*2.6*
Government enterprises	5 266	4 857	4 795	4 773	4 752	4 733
% change	*–3.0*	*–7.8*	*–1.3*	*–0.5*	*–0.4*	*–0.4*
Federal transfers	16 832	17 322	18 001	18 553	18 958	19 545
% change	*1.8*	*2.9*	*3.9*	*3.1*	*2.2*	*3.1*
Total budgetary revenue	**71 171**	**74 458**	**76 956**	**79 104**	**81 072**	**83 154**
% change	***2.0***	***4.6***	***3.4***	***2.8***	***2.5***	***2.6***
Budgetary expenditure						
Program spending	–65 704	–66 460	–67 889	–69 788	–71 722	–73 722
% change	*2.1*	*1.2*	*2.2*	*2.8*	*2.8*	*2.8*
Debt service	–8 164	–8 331	–8 615	–8 566	–8 395	–8 294
% change	*–3.2*	*2.0*	*3.4*	*–0.6*	*–2.0*	*–1.2*
Total budgetary expenditure	**–73 868**	**–74 791**	**–76 504**	**–78 354**	**–80 117**	**–82 016**
% change	***1.5***	***1.2***	***2.3***	***2.4***	***2.3***	***2.4***
CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds[1]	426	343	29	25	–6	6
Reduction in the tax burden[2]	—	—	–81	–375	–549	–744
Health and social services and education networks	–79	–10	—	—	—	—
Generations Fund	1 253	1 586	2 236	2 765	3 085	3 446
Total consolidated entities	**1 600**	**1 919**	**2 184**	**2 415**	**2 530**	**2 708**
Contingency reserve	—	—	–400	–400	–400	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**	**2 765**	**3 085**	**3 446**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236	–2 765	–3 085	–3 446
BUDGETARY BALANCE[3]	**–2 350**	**—**	**—**	**—**	**—**	**—**

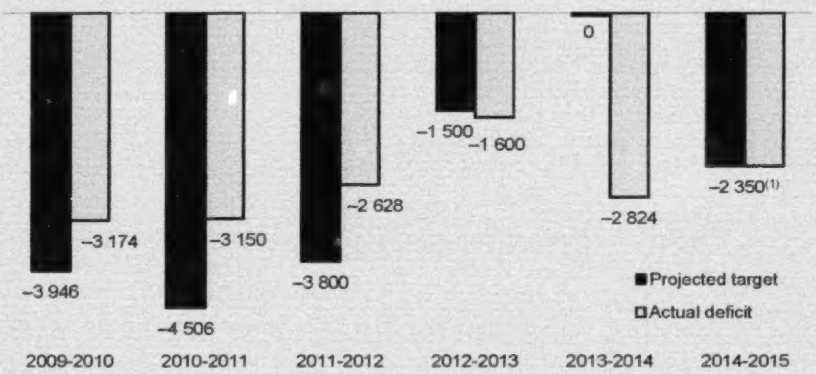
(1) Including consolidation adjustments.
(2) Decline in revenue stemming from gradual elimination of the health contribution.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

Meeting of projected deficit targets

Québec has posted deficits since 2009-2010.

The deficits have been lower or equal to the set targets except for in 2012-2013 and 2013-2014.

Projected and actual deficits
(millions of dollars)



Note: The projected target for 2009-2010 is the deficit target set in Budget 2009-2010. The projected target for 2010-2011 is the deficit target set in Budget 2010-2011. The projected target for 2011-2012 is the deficit target set in Budget 2011-2012. The projected target for 2012-2013 is the deficit target set in Budget 2012-2013. The projected target for 2013-2014 is the deficit target set in Budget 2013-2014. The projected target for 2014-2015 is the deficit target set in Budget 2014-2015.

(1) Data for 2014-2015 are forecasts.

☐ Change in share of revenue and expenditure in the economy

The economic weights of government revenue and expenditure generally follow similar paths. A surplus occurs when revenue outweighs expenditure. A deficit occurs when expenditure outweighs revenue.

Between 2007-2008 and 2013-2014:

— the weight of consolidated revenue in the economy rose from 25.1% to a high of 25.7%;

— the weight of consolidated expenditure increased from 24.4% to a high of 26.2%.

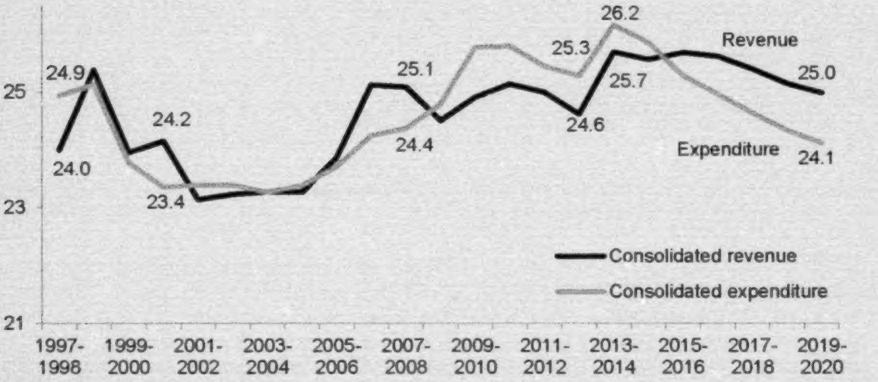
During the same period, expenditure exceeded revenue, causing significant budget deficits.

Once fiscal balance has been restored in 2015-2016, the reduction in the tax burden announced in Budget 2015-2016 will bring total revenue as a share of the economy to 25.0% in 2019-2020, a similar level to that in 2007-2008, before the recession.

— Revenue will continue to outweigh expenditure so that deposits can be made in the Generations Fund. Those deposits are crucial to reducing the debt and ensuring intergenerational fairness.

CHART A.3

Change in the share of consolidated revenue and expenditure in the economy
(as a percentage of GDP)



Source: Ministère des Finances du Québec.

1.4 Continued acceleration of revenue growth in 2015-2016

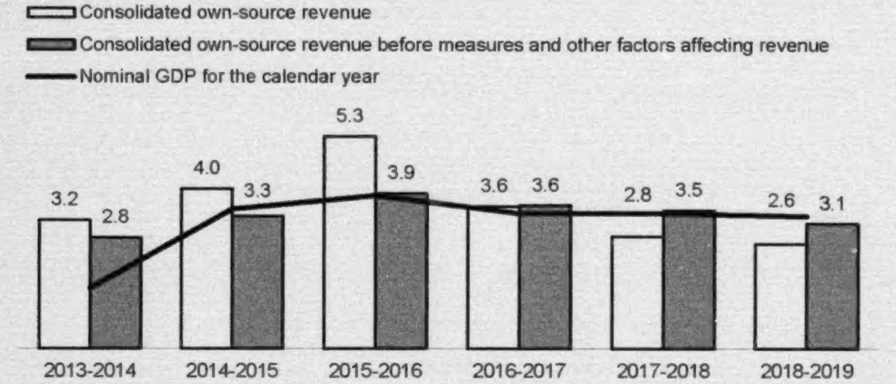
Own-source revenue excluding government enterprises consists primarily of tax revenue. It reflects the changes in economic activity as well as the effects of the revenue measures implemented.

Growth of consolidated own-source revenue will continue to gain momentum over the next two years, increasing from a rate of 3.2% in 2013-2014 to 4.0% in 2014-2015 and 5.3% in 2015-2016, driven, in particular, by more sustained economic growth and measures to spur revenue growth.

— Excluding the effect of revenue measures, consolidated own-source revenue is expected to grow in pace with nominal GDP growth. The rate will be 3.3% in 2014-2015, 3.9% in 2015-2016 and 3.1% in 2018-2019.

CHART A.4

Growth in consolidated own-source revenue excluding government enterprises
(per cent)



Revenue growth in line with economic growth

Growth in consolidated own-source revenue excluding government enterprises – 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Own-source revenue	**74 681**	**77 293**	**80 716**	**83 362**	**85 547**	**87 646**
% change	***6.2***	***3.5***	***4.4***	***3.3***	***2.6***	***2.5***
Government enterprises	5 430	5 266	4 857	4 795	4 773	4 752
Own-source revenue excluding government enterprises	**69 251**	**72 027**	**75 859**	**78 567**	**80 774**	**82 894**
% change	***3.2***	***4.0***	***5.3***	***3.6***	***2.8***	***2.6***
Measures and other factors affecting revenue growth(1)						
Budget 2015-2016	—	—	1	–98	–446	–688
December 2014 Update	—	120	626	685	563	569
Budget 2014-2015	—	333	304	278	259	247
Other measures(2) and adjustments	370	400	980	1 100	1 196	1 301
Phasing out of restrictions on input tax refunds for large businesses(3)	—	—	—	—	–55	–275
Subtotal	**370**	**852**	**1 911**	**1 964**	**1 518**	**1 154**
Own-source revenue excluding government enterprises before measures	**68 881**	**71 175**	**73 949**	**76 602**	**79 256**	**81 740**
% change	***2.8***	***3.3***	***3.9***	***3.6***	***3.5***	***3.1***
Nominal GDP growth	***1.5***	***3.5***	***3.8***	***3.4***	***3.4***	***3.3***

(1) Main measures affecting consolidated revenue growth.
(2) Measures under budgets 2012-2013 and 2013-2014.
(3) Businesses with taxable sales of over $10 million.

☐ Change in consolidated own-source revenue as a percentage of nominal GDP

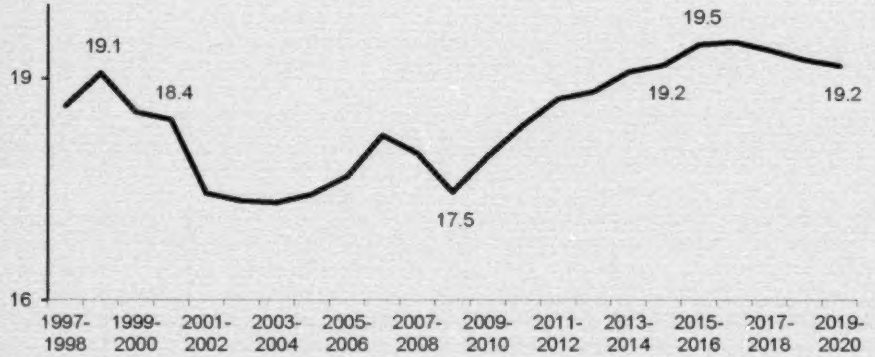
In 2014-2015, consolidated own-source revenue excluding revenue from government enterprises will represent 19.2% of Québec's nominal GDP.

Taking into account the measures implemented to balance the budget in 2015-2016, in particular those announced in the December 2014 Update, the share of own-source revenue in the economy will increase to 19.5% in 2015-2016.

The measures announced in Budget 2015-2016, especially gradual elimination of the health contribution, will progressively bring the share of own-source revenue in the economy down to 19.2% in 2019-2020.

CHART A.5

Change in the share of consolidated own-source revenue excluding government enterprises in the economy
(as a percentage of GDP)



Source: Ministère des Finances du Québec.

1.5 Slowdown in spending growth

Budget 2014-2015 reduced spending growth to below recent-year rates, bringing them more in line with taxpayers' ability to pay.

— Budget 2015-2016 continues the government's disciplined spending management. Forecast spending growth is being held at a similar rate to that set in Budget 2014-2015.

Keeping spending growth below revenue growth will enable a balanced budget in 2015-2016.

☐ A trend reversal in 2014-2015

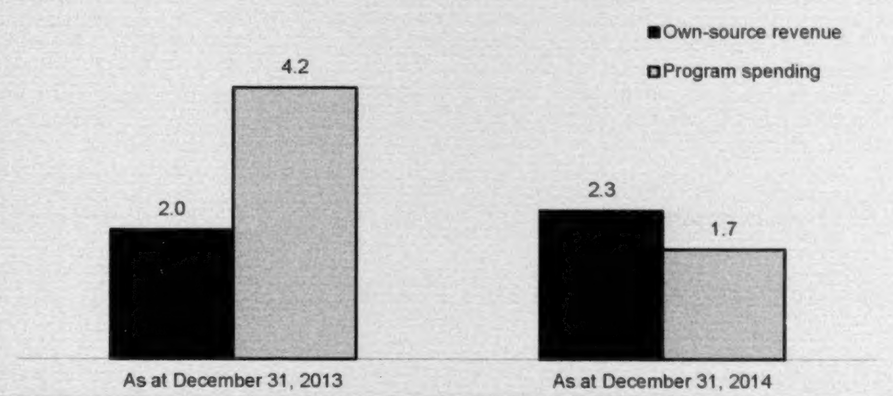
From April to December 2014, own-source revenue growth outpaced program spending growth, contrary to what occurred during the same period last year. In 2013-2014, program spending rose more than own-source revenue. The results as at December 31, 2014, are attributable to:

— tight control of program spending;

— faster economic growth in 2014-2015, reflected in the growth in own-source revenue.

CHART A.6

Cumulative growth in own-source revenue and program spending of the general fund after 9 months
(per cent)



Sources: Ministère des Finances du Québec, monthly reports on financial transactions as at December 31 each year.

☐ Consolidated expenditure

Consolidated expenditure consists primarily of program spending by government departments, spending by special funds, non-budget-funded bodies, entities of the health and social services and education networks, and debt service.

Growth in consolidated expenditure excluding debt service is forecast to stand at 2.9% in 2014-2015, compared to 4.7% in 2013-2014.

The average annual growth rate from 2015-2016 to 2019-2020 will be 2.0%, i.e.:

— 1.5% in 2015-2016;

— 1.9% in 2016-2017;

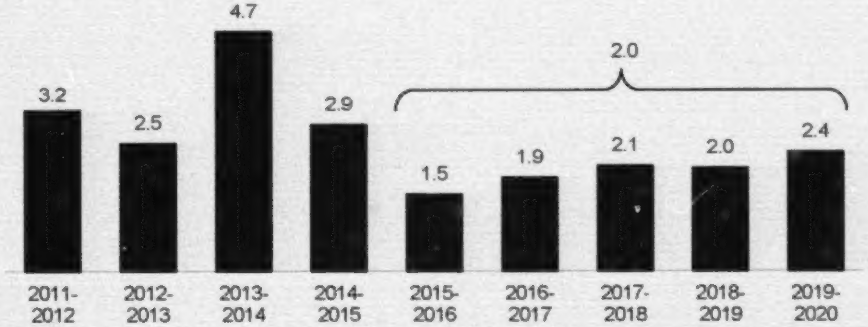
— 2.1% in 2017-2018;

— 2.0% in 2018-2019;

— 2.4% in 2019-2020.

CHART A.7

Consolidated expenditure growth excluding debt service
(per cent)



☐ Reduction of the weight of spending in the economy to its pre-recession level

Between 2007-2008 and 2013-2014, the economic weight of spending on government missions, i.e. consolidated expenditure excluding debt service as a percentage of GDP, rose from 21.5% to 23.2%.

The government adopted disciplined spending management to restore fiscal balance in 2015-2016.

— In 2014-2015, the weight of spending was reduced to 23.1% and will be 22.6% in 2015-2016.

Without compromising economic growth, spending will be controlled so as to gradually lower spending on government missions as a share of the economy to 21.5% by 2020. This is equivalent to the level prior to the 2009 recession and is more sustainable.

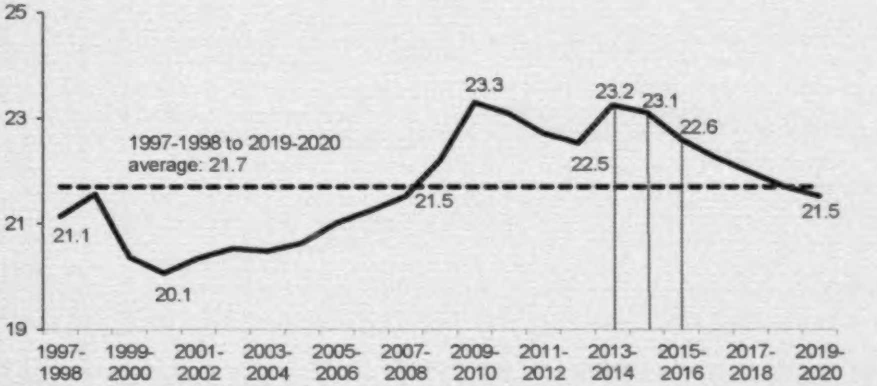
Lowering spending levels will:

— prevent excessively high spending from creating an onerous fiscal burden in relation to the other Canadian provinces, which could undermine tax competitiveness and limit economic growth in Québec;

— provide the government once again with the capacity, during difficult economic times, to finance an expansionary policy if one is needed to boost the economy.

CHART A.8

Change in the share of consolidated expenditure excluding debt service in the economy
(as a percentage of GDP)



Source: Ministère des Finances du Québec.

A comparative look at spending

The forecast spending growth in Québec is similar to the growth forecasts elsewhere in Canada.

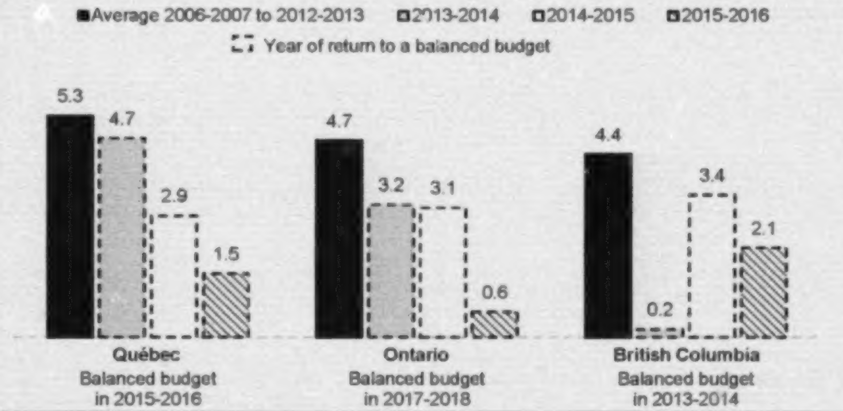
To ensure the return to a balanced budget in 2015-2016, Québec is gradually slowing growth in its consolidated expenditure excluding debt service to 2.9% for 2014-2015 and 1.5% for 2015-2016.

Ontario, which expects to balance its budget in 2017-2018, is lowering spending growth to a forecast rate of 3.1% in 2014-2015 and 0.6% in 2015-2016.

British Columbia has already balanced its budget. In 2013-2014, the year fiscal balance was restored, spending grew by a mere 0.2%.

- B.C. forecasts spending growth of 3.4% in 2014-2015 and 2.1% in 2015-2016. These rates are lower than those seen in the years prior to balancing the budget.

Canadian provinces' consolidated expenditure growth
(per cent)



Note: Consolidated expenditure excluding debt service.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

☐ Program spending

Program spending consists of spending by government departments and is mainly tax-funded.

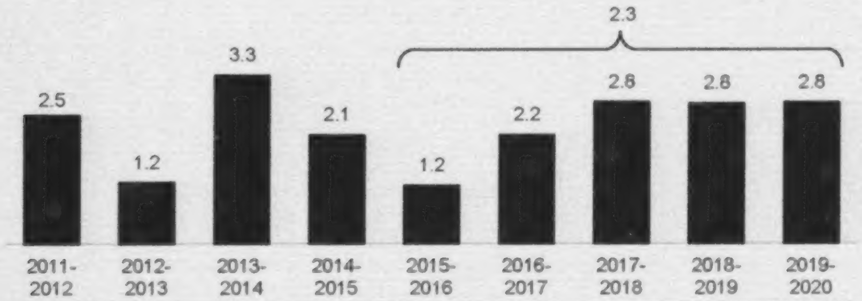
In 2014-2015, growth in program spending is expected to be 2.1%, compared to 3.3% in 2013-2014.

From 2015-2016 to 2019-2020, the average annual growth rate will be 2.3%, i.e.:

- 1.2% in 2015-2016;
- 2.2% in 2016-2017;
- 2.8% as of 2017-2018.

CHART A.9

Program spending growth
(per cent)



■ Three-year program spending objectives for the major portfolios

This budget presents a three-year spending plan for the major portfolios to guide the departments in the use of their resources. For instance:

- — program spending for the Ministère de la Santé et des Services sociaux will increase by 1.4% in 2015-2016, 1.9% in 2016-2017 and 2.9% in 2017-2018;
- — program spending for the Éducation, l'Enseignement supérieur et la Recherche portfolio will grow by 0.2% in 2015-2016, 1.6% in 2016-2017 and 2.4% in 2017-2018;
- — overall, the funding allocated to the other portfolios will rise by 1.6% in 2015-2016, 1.8% in 2016 2017 and 1.6% in 2017-2018.

Furthermore, the government has room to manoeuvre to manage risks and ministerial arbitration cases during preparation of the expenditure budget.

TABLE A.10

Program spending for the major portfolios
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018
Santé et Services sociaux	32 390	32 851	33 462	34 432
% change	*4.2*	*1.4*	*1.9*	*2.9*
Éducation, Enseignement supérieur et Recherche	16 896	16 926	17 196	17 608
% change	*1.6*	*0.2*	*1.6*	*2.4*
Other portfolios[1]	16 418	16 683	16 981	17 248
% change	*−1.1*	*1.6*	*1.8*	*1.6*
Room to manoeuvre	—	—	250	500
PROGRAM SPENDING	**65 704**	**66 460**	**67 889**	**69 788**
% change	***2.1***	***1.2***	***2.2***	***2.8***

(1) Including the contingency fund.
Source: Secrétariat du Conseil du trésor.

Elimination of the progressive health contribution and the Fund to Finance Health and Social Services Institutions (FINESSS)

The progressive health contribution will be gradually phased out starting January 1, 2017. For the purposes of consistency, FINESSS will be abolished April 1, 2016.

- These two decisions in no way change the level of health spending.

As of 2016-2017, spending currently planned by FINESSS ($1 539 million in 2016-2017) will be financed out of program spending, which will be adjusted by an equivalent amount.

- The gradual elimination of the health contribution will be financed using additional revenue provided for in the financial framework for the coming years.
- This will allow the government to continue financing expenditures previously supported by the progressive health contribution.

The table below illustrates the impact of the elimination of the progressive health contribution and FINESSS on health funding.

Impact on health funding of the elimination of the progressive health contribution and FINESSS in 2016-2017
(millions of dollars)

	Before elimination	After elimination	Difference
Health spending			
Program spending	33 462	35 001	1 539
FINESSS	1 539	—	–1 539
Total – Health spending	**35 001**	**35 001**	**—**
Health funding			
Progressive health contribution	725	644	–81
Other revenue	34 276	34 276	—
Additional revenue already included in the financial framework	—	81	81
Total – Health funding	**35 001**	**35 001**	**—**

1.6 Debt reduction

The government is maintaining its debt reduction objectives by continuing to make deposits in the Generations Fund. The *Act to reduce the debt and establish the Generations Fund* sets the following debt reduction objectives for 2025-2026:

— 45% of GDP for the gross debt;

— 17% of GDP for the debt representing accumulated deficits.

☐ Reduction of the debt burden starting in 2015-2016

The gross debt burden will stand at 54.9% of GDP as at March 31, 2015. It is expected to be 54.0% of GDP as at March 31, 2016, a decrease of 0.9 percentage point. The decrease is a major step toward the government's achieving the set debt reduction objectives.

Reducing the debt is a priority for the government. Deposits in the Generations Fund to pay down the debt are drawn from various revenue sources, in particular:

— amounts relative to annual indexing of the price of heritage electricity, like other government rates, since 2014;

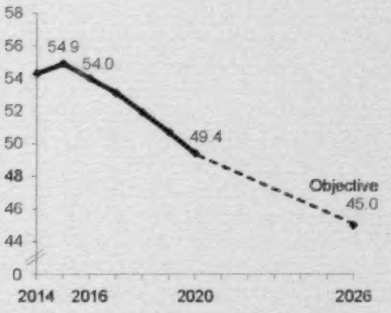
— $100 million in 2014-2015 and 2015-2016 and $500 million as of 2016-2017 from the specific tax on alcoholic beverages;

— all mining revenues as of 2015-2016.

CHART A.10

Gross debt as at March 31

(as a percentage of GDP)

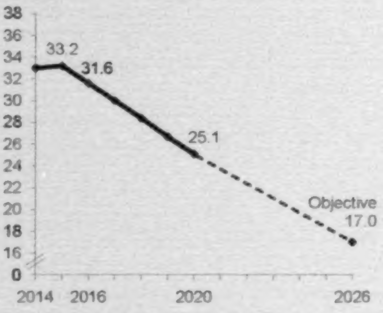


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.11

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



1.7 Capital investments

❑ The 2015-2025

Responsible management of public spending is also part of the government's public infrastructure investment planning process.

In terms of infrastructure investment, the government needs to ensure the safety and maintenance of assets, as well as meet infrastructure development needs.

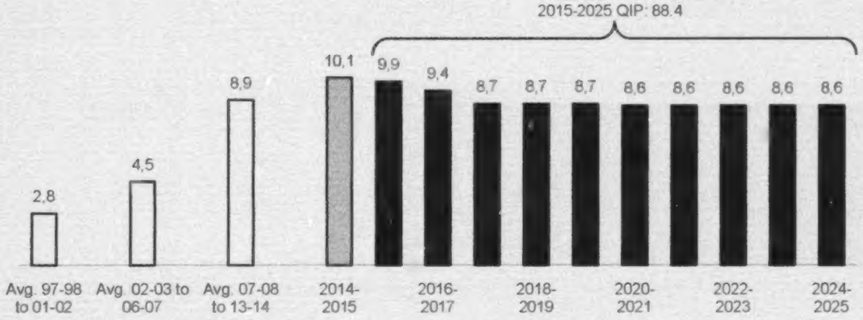
In addition to restoring fiscal balance, the government is adopting a long-term vision of infrastructure investment to ensure a responsible, stable and balanced level of spending.

Accordingly, the government is announcing that the investments in the 2015-2025 Québec Infrastructure Plan (QIP) will stand at $88.4 billion. The higher levels of investment over the next ten years compared to previous decades will be carried out:

- giving priority to public safety, replacement of outdated infrastructure and economic development;
- within a framework designed to improve the management and planning of capital investments;
- remaining within Québec taxpayers' ability to pay and achieving the debt reduction objectives.

CHART A.12

Investments under the 2015-2025 Québec Infrastructure Plan
(billions of dollars)



In 2015-2016, public capital investments will amount to $9.9 billion, a similar level to that in 2014-2015.

The Québec government allocates substantial sums to public infrastructure investment. By comparison, the federal government's infrastructure plan provides for $47.5 billion in new funding over ten years for all of Canada.

Furthermore, in order to carry out new priorities in the short term, the government is announcing that it is accelerating investment in $1.4 billion worth of projects over the next four fiscal years, out of the total funding of $88.4 billion allocated to the plan.

Thus, investments under the QIP are being increased by:

- $300 million in 2015-2016;
- $900 million in 2016-2017;
- $100 million for the two following years.

These accelerated investments do not jeopardize achievement of the debt reduction objectives in 2025-2026.

TABLE A.11

Comparison of investment levels for the 2015-2025 QIP
(billions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019
Budget 2015-2016	9.9	9.4	8.7	8.7
December 2014 Update	9.6	8.5	8.6	8.6
ADJUSTMENTS	**0.3**	**0.9**	**0.1**	**0.1**

In addition, major new projects under the 2015-2025 QIP will be considered, including:

- completion of Highway 19;
- repairs to the deck of the Pont de Québec;
- addition to the Centre femme-jeunesse-famille of the Fleurimont hospital;
- extension of Highway 138 (Kegaska to La Romaine and Tête-à-la-Baleine to La Tabatière);
- addition to the Palais des congrès de Montréal.

☐ Sectoral breakdown of investments under the 2015-2025 Québec Infrastructure Plan

Over the next ten years, 19% of the $88.4 billion in investments under the 2015-2025 QIP will be dedicated to the road network, 16% on the health and social services sector, 10% on the education sector and 9% on municipal infrastructure.

Public transit will receive 8% of the investments under the 2015-2025 QIP, or nearly $7.3 billion, including $950 million in 2015-2016.

TABLE A.12

Investments under the 2015-2016 Québec Infrastructure Plan, by sector
(millions of dollars)

	2015-2016		2015-2025	
	Millions $	Share in %	Millions $	Share in %
Road network	2 342.7	24%	16 655.3	19%
Health and social services	1 460.8	15%	14 436.8	16%
Education	1 381.0	14%	8 772.9	10%
Municipal, sport, community and recreation infrastructure	918.0	9%	8 214.1	9%
Public transit	948.1	10%	7 247.7	8%
Higher education and research	509.9	5%	6 529.6	7%
Information resources	464.4	5%	3 313.2	4%
Government buildings	386.1	4%	2 441.1	3%
Marine, air, rail and other modes of transport	365.3	4%	2 164.7	2%
Social and community housing	285.1	3%	2 013.5	2%
Culture	227.7	2%	1 650.2	2%
Other sectors	561.2	6%	4 310.4	5%
Core funding(1)	61.1	1%	10 650.8	12%
2015-2025 QIP	**9 911.5**	**100%**	**88 400.0**	**100%**

(1) Funding reserved for projects currently under study and future projects not yet identified.

☐ Contribution from partners

In addition to the investments of $88.4 billion provided for in the 2015-2025 QIP, the Québec government's various partners will contribute a total of $17.9 billion to QIP projects.

This raises the total level of capital investments for projects under the QIP to $106.3 billion over the next ten years.

TABLE A.13

Capital investments 2015-2025
(billions of dollars)

2015-2025 Québec Infrastructure Plan	88.4
Contribution from partners(1)	17.9
TOTAL	**106.3**

(1) Federal government, municipalities and other partners.

❑ Economic impacts of public capital investment

The substantial public capital investment planned for the coming years will provide powerful stimulus for economic activity and job creation in every region of Québec.

Capital investments in all sectors of the economy will help build a prosperous economy over the medium and long term. In particular, investments in transportation infrastructure will facilitate trade, while investments in education will contribute to workforce training, research and innovation, two key determinants of productivity.

In addition to the government's investments under the QIP, government enterprises also make substantial capital investments.

In 2015-2016, capital investments by government enterprises, chiefly Hydro-Québec, will total $4.0 billion.

Counting the $9.9 billion planned under the QIP, public investment will reach nearly $14.0 billion in 2015-2016. These investments will:

- generate spinoffs equal to 2.4% of real GDP;
- help create or maintain nearly 78 500 jobs, including 45 500 direct jobs.

TABLE A.14

Impact of capital investments

	2015-2016
Investments under 2015-2025 QIP	$9.9 billion
Investments by government enterprises	$4.0 billion
Total investments	**$13.9 billion**
Number of jobs created or maintained	78 500
Impact on GDP	2.4%

New approach to infrastructure projects: involvement of the Caisse de dépôt et placement

On January 13, 2015, the Québec government and the Caisse de dépôt et placement du Québec entered into a public infrastructure agreement that is commercial in nature. The agreement is in response to the government's desire to introduce a new business model for the carrying out of public infrastructure projects that will have a structuring effect on Québec's economy while limiting the impacts on public finances. The agreement also addresses the Caisse's desire to invest more in infrastructure projects that generate stable, predictable returns for its clients.

Under the terms of the agreement, the government will identify infrastructure projects that could be carried out by the Caisse following the necessary preliminary stages. The government has already announced its intention to submit two projects it has identified as priorities: a public transit system on the new Champlain Bridge and another one linking downtown Montréal to the Montréal-Trudeau International Airport and the West Island.

If, after reviewing a project at arm's length from the government, the Caisse decides that it can carry out the project and generate commercial returns for its depositors, i.e. all Quebec savers, it will enter into another agreement with the government specifically for the project in question. The Caisse will then be both the project manager and contractor.

To implement the agreement and enable the Caisse to create a new infrastructure subsidiary, the Minister of Finance introduced Bill 38, *An Act to allow the Caisse de dépôt et placement du Québec to carry out infrastructure projects*, in the National Assembly on March 18, 2015.

☐ Greater importance of public capital stock in the economy

Over the next ten years, the level of Québec government investments will remain above pre-2008 levels, averaging nearly $9 billion a year.

Government investments accounted for 2.7% of GDP in 2014-2015 and should be 2.5% in 2015-2016. Over the next ten years, they are expected to average 2.0% of GDP annually. Investment targets of this level reflect the importance the government gives to public infrastructure.

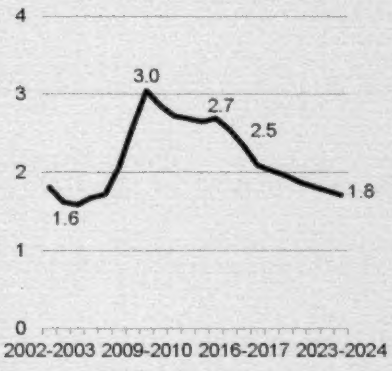
The Quebec Infrastructure Plan contributes directly to the increase in public capital stock in the economy. Public capital stock is a key determinant of productivity and economic growth.

— Public capital stock increased from 21.9% of real GDP in 2000 to 29.1% in 2013, and will continue rising, reaching 30.6% in 2016.

— This growth will lift public capital stock to the same level it was at in the early 1980s. Public capital stock helps improve business productivity as well as the standard of living in Québec.

CHART A.13

Annual public capital investments of the Québec government
(as a percentage of GDP)

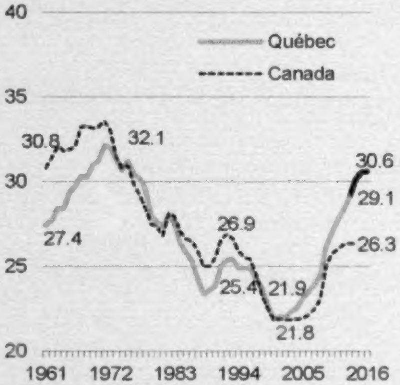


Sources: Institut de la statistique du Québec, Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

CHART A.14

Change in public capital stock

(as a percentage of GDP, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

2. THE QUÉBEC ECONOMIC PLAN

2.1 Economic measures to foster growth

With the achievement of a balanced budget in 2015-2016 and the efforts it intends to pursue to ensure sound management of public finances, the government is implementing a plan to support growth and economic development in Québec.

Thus, with The Québec Economic Plan presented as part of this budget, the government aims to:

— offer an initial response to the recommendations of the Québec Taxation Review Committee and, to that end, is planning substantial tax relief for individuals and corporations;

— move forward with major initiatives to foster the development of the economy and meet Québec's economic challenges.

The set of actions provided for in The Québec Economic Plan will total $3.4 billion over the coming years, including $2.5 billion in tax relief.

TABLE A.15

Financial impact of the measures of The Québec Economic Plan
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Easing of the tax burden on individuals	—	–141	–446	–628	–803	**–2 017**
Easing of the tax burden on corporations	–11	–69	–80	–129	–216	**–504**
Subtotal	**–11**	**–210**	**–526**	**–757**	**–1 018**	**–2 521**
New initiatives to foster the performance of the labour market	–26	–38	–34	–35	–35	**–166**
New initiatives to stimulate private investment	–43	–66	–106	–93	–99	**–406**
New initiatives for communities and culture	–42	–48	–42	–49	–129	**–309**
Subtotal	**–110**	**–151**	**–182**	**–176**	**–262**	**–882**
TOTAL	**–121**	**–361**	**–708**	**–933**	**–1 280**	**–3 403**

Note: The figures have been rounded off, so they may not add up to the total indicated.

Easing of the tax burden on individuals

Budget 2015-2016 announces three measures to ease the tax burden on individuals:

- gradual elimination of the health contribution;
- introduction of a tax shield;
- enhancement of the work incentive for experienced workers.

Gradual elimination of the health contribution

In Budget 2014-2015, the government made a commitment to ease the tax burden on taxpayers once a balanced budget had been achieved. To fulfil its commitment, Budget 2015-2016 announces the gradual elimination of the health contribution beginning January 1, 2017.

Introduction of a tax shield

The government is introducing a new tax measure to foster the incentive to work as of 2016. The tax shield will protect workers making an additional work effort by limiting the loss of certain socio-fiscal transfers.

Enhancement of the work incentive for experienced workers

The government is also announcing an enhancement of the existing tax credit for experienced workers as of 2016, i.e. additional assistance so that they will remain longer in the labour market or re-enter it.

In return, the eligibility age for the tax credit with respect to age will gradually be raised from 65 to 70.

Globally, these actions will represent a $803-million reduction of the tax burden on individuals when implemented.

TABLE A.16

Financial impact of the measures to ease the tax burden on individuals
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Gradual elimination of the health contribution beginning in 2017	—	—	–81	–375	–549	–744	**–1 749**
Introduction of the tax shield	—	—	–52	–52	–52	–52	**–209**
Enhancement of the work incentive for experienced workers	—	—	–27	–56	–84	–83	**–250**
Raising of the eligibility age for the tax credit with respect to age	—	—	18	38	57	77	**190**
TOTAL	**—**	**—**	**–141**	**–446**	**–628**	**–803**	**–2 017**

Note: The figures have been rounded off, so they may not add up to the total indicated.

☐ Easing of the tax burden on corporations

Inspired by the work of the Québec Taxation Review Committee, the government is announcing significant improvements to the corporation tax system to create a favourable tax environment for investment and job creation, in keeping with the government's financial capacity.

Thus, the Economic Plan provides for actions aimed at:

- easing the tax burden on SMBs, thanks to a reduction from 8% to 4% in the tax rate for SMBs in the primary sector and a gradual reduction from 2.7% to 2.25% in the Health Services Fund contribution rate for SMBs in the service and construction sectors;
- rendering the tax system more favourable to investment by a gradual reduction in the general corporate income tax rate from 11.9% to 11.5% and by extending, for the regions, the investment tax credit;
- ensuring the effectiveness of sector-based tax assistance regarding the new economy, culture and the financial sector;
- supporting the activities of the tax-advantaged funds thanks to enhancement of the tax credit rate for Fondaction and an increase in the investment requirement for tax-advantaged funds.

Globally, these actions will represent a $216-million reduction in the tax burden on Québec businesses after five years.

TABLE A.17

Financial impact of the measures to ease the tax burden on corporations
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Reducing the tax burden on SMBs	—	—	–3	–14	–15	–31
Rendering the tax system more favourable for investment	—	–7	–8	–43	–126	–183
Ensuring the effectiveness of sector-based tax assistance	–5	–57	–69	–72	–76	–279
Supporting the activities of tax-advantaged funds	–6	–5	—	—	—	–11
TOTAL	**–11**	**–69**	**–80**	**–129**	**–216**	**–504**

Note: The figures have been rounded off, so they may not add up to the total indicated.

❑ Fostering workforce development

To remedy the labour shortage, the government is announcing measures to improve the performance of the labour market. These actions will:

- provide for a better match between training and labour market needs in order to increase the workforce capable of meeting sector-based and regional labour needs;
- increase the number of available workers by fostering the participation of immigrants in the development of Québec.

❑ Stimulating private investment

The government intends to act to stimulate investment in social economy businesses, in SMBs and in large businesses. It also intends to support key sectors for Québec's economy.

Budget 2015-2016 provides for financial support for the implementation of major initiatives, in particular:

- implementation of the Maritime Strategy;
- a Québec aluminum development strategy;
- a government social economy action plan.

In all, investments of more than $1.5 billion are planned from now to 2020 as part of the Maritime Strategy.

Natural resources are also one of Québec's major assets. Thus, the government will pursue their development, in particular by pursuing the deployment of the Northern Plan and by specific measures to support the mining, natural gas and forest sectors.

❑ New initiatives for communities and culture

With the goal of supporting the development of communities and culture, the budget provides for budgetary and fiscal initiatives representing $309 million over five years.

2.2 Funding of The Québec Economic Plan

The Québec Economic Plan is funded by:

- use of budget surpluses projected in Budget 2014-2015 as of 2017-2018;
- $100 million annually in program spending related to the Economic Plan;
- a portion of the adjustments related to the evolution of the economy.

TABLE A.18

Funding for the measures of The Québec Economic Plan
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Economic plan					
Elimination of the health contribution	—	–81	–375	–549	–744
New initiatives – Budget 2015-2016	–121	–280	–333	–384	–536
Financial impact of the economic plan	**–121**	**–361**	**–708**	**–933**	**–1 280**
Funding					
Budget surpluses projected in Budget 2014-2015	—	—	600	800	1 000
Program spending related to the economic plan	100	100	100	100	100
Other adjustments to the financial framework since June 2014	21	261	8	33	180
Total funding	**121**	**361**	**708**	**933**	**1 280**

The importance of fostering economic growth: the recommendations of the International Monetary Fund

The necessity of promoting economic growth

The International Monetary Fund (IMF) mentions, in a report issued in fall 2014,[1] that it is necessary to promote economic growth worldwide, in particular by supporting the economy and adopting policies to increase the potential for growth in advanced economies.

Advanced economies should also adopt policies to support employment recovery.[2]

- Such measures can be targeted to specific groups, such as older people, to encourage them to remain in the labour market, or low-skilled workers or youth, who are at higher risk of unemployment.

The IMF also mentions that policies aimed at supporting infrastructure investment foster short-term and long-term economic growth, particularly in advanced economies. However, such spending should target the most pertinent investments.

- For example, the IMF estimates, in a sample of advanced economies, that an infrastructure spending increase equal to 1 percentage point of GDP increases output by roughly 0.4% the same year and 1.5% after four years.

Taking into account these factors and interest rates, which should remain low for the foreseeable future, the international organization believes that the time is right for investment.

Reforms to develop Canada's economic potential

Moreover, another IMF report, published in January 2015,[3] stresses the importance of implementing structural reforms in Canada aimed at increasing the medium-term economic growth potential.

The measures identified by the IMF target the key factors determining economic growth to increase business productivity and investment.

- First, productivity and innovation must be stimulated. Labour productivity can be increased by improving the match between workers' skills and the labour market and by fostering research and development by businesses. Start-ups of innovative businesses and their growth must also be supported.
- Next, the immigration system must be improved to better match the labour market. Also, interprovincial workforce mobility must be facilitated.
- Finally, to foster exports and growth potential, efforts to limit barriers to interprovincial trade, diversify exports and open up to new markets must be pursued.

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[1] International Monetary Fund, *World Economic Outlook: Legacies, Clouds, Uncertainties*, October 2014.

[2] International Monetary Fund, *Fiscal Monitor – Back to Work: How Fiscal Policy Can Help*, October 2014.

[3] International Monetary Fund, *Canada: 2014 Article IV Consultation – Staff Report, Staff Statement and Press Release*, IMF Country Report, No. 15, vol. 22, January 2015.

3. DISCIPLINED MANAGEMENT OF PUBLIC FINANCES

In Budget 2014-2015, the government set at $7.3 billion the measures required to restore a balanced budget in 2015-2016. The array of measures, which consist essentially in controlling spending, was identified over the past year.

- In fact, 84% of the effort was achieved by controlling government spending.
- The effort by businesses amounts to 9%, and by individuals, 7%.

Also, to achieve its budget objectives, the government established control and management mechanisms for public finances, for example:

- program review, in particular to ensure that programs address priority needs of citizens and are administered effectively and efficiently;
- implementation of a cap on spending to ensure compliance with spending targets;
- better control of staffing levels, for responsible management of remuneration;
- planning of expenditures over three years, to encourage medium-term decision-making by departments.

Budget 2015-2016 is an opportunity to present the government's action since Budget 2014-2015 to achieve a balanced budget and durably restore sound public finances.

It is also an opportunity to pursue disciplined management of public finances and report on the implementation of some of the initiatives announced, in particular for:

- control of spending, including spending for remuneration and for health;
- budget management by public bodies;
- improvement of budgetary practices;
- more effective management of the solidarity tax credit.

Measures to restore a balanced budget

List of measures to restore a balanced budget in 2015-2016
(millions of dollars)

	2015-2016	Share of the total
BUDGETARY BALANCE BEFORE MEASURES – BUDGET 2014-2015[1]	**–7 274**	
Control of government spending		
Contribution from departments and bodies	2 406	
Contribution from government enterprises and public bodies	172	
Limit the remuneration through a general freeze on staffing levels	500	
Limiting factors related to spending on remuneration	689	
Compensation spreading for physicians	194	
Suspension of bonuses paid to senior executives and management personnel	42	
Reduction in the contingency reserve for additional requirements	200	
Changes to the organization and governance of the health and social services network and adoption of best practices	205	
Transitional fiscal pact with municipalities for 2015	300	
Use of the contingency reserve	200	
Efforts incorporated in expenditures Budget 2015-2016	1 187	
Subtotal – Government measures	**6 095**	**84%**
Measures concerning businesses		
Elimination or suspension of certain fiscal measures announced since September 2012	56	
20% reduction in tax credit rates	270	
Introduction of minimum eligible expenditure thresholds for R&D tax credits and the investment tax credit	58	
Elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums	128	
Temporary surtax on financial institutions	125	
Other measures concerning businesses	49	
Subtotal – Measures concerning businesses	**686**	**9%**
Measures concerning individuals		
Adjustment of childcare funding	193	
Reduction of the conversion rate for tax credits for union and professional dues from 20% to 10%	112	
Elimination of the reduced rate of the tax on insurance premiums for automobile insurance	116	
Other measures concerning individuals	72	
Subtotal – Measures concerning individuals	**493**	**7%**
Total for measures identified	**7 274**	**100%**
BUDGETARY BALANCE – BUDGET 2015-2016	—	

(1) Excluding the $49-million impact of the revenue measures and economic recovery plan announced in the June 2014 budget and the $285-million downward adjustment to renewal costs, the budgetary balance before measures would have been –$7 608 million for 2015-2016, that is, the same as the balance forecast in Budget 2014-2015 (Budget 2014-2015 – Budget Plan, p. A. 21).

Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

3.1 Actions to control spending

Since Budget 2014-2015, the government has announced several measures to bolster spending control by targeting, in particular, control of remuneration paid to public and parapublic sector employees. It has also launched an important reform of health services.

Municipalities are also partners in sound management of public finances.

☐ Remuneration

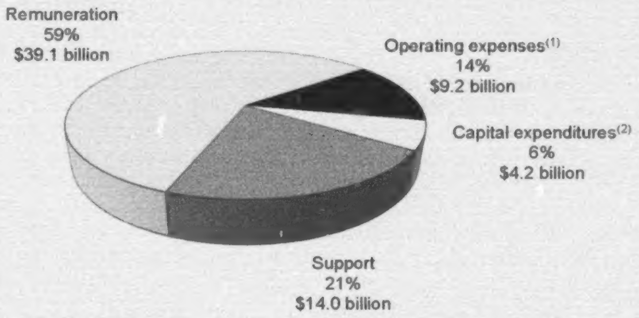
Disciplined spending management necessarily means managing the global cost of remuneration in the public and parapublic sectors.

In 2015-2016, spending for remuneration will total $39.1 billion, representing 59% of program spending.

The weight of remuneration in program spending

Remuneration includes the regular remuneration of employees and physicians, overtime and certain indemnities, fringe benefits and other employer contributions made by the government, such as the contribution to retirement plans, the Québec Pension Plan, the Health Services Fund, employment insurance and the Québec Parental Insurance Plan.

Program spending components – 2015-2016
(per cent and billions of dollars)



Note: The figures in per cent have been rounded off, so they may not add up to 100%.

(1) Operating expenses include doubtful accounts, savings to be realized by entities and anticipated lapsed appropriations.

(2) Capital expenditures correspond to repayment of principal and interest.

Source: Secrétariat du Conseil du trésor, *Expenditure Budget 2015-2016*.

■ Control of staffing levels

To ensure a balanced budget, the government confirms the general freeze on staffing levels in the public and parapublic sectors for fiscal 2015-2016.

This measure is one of a series of actions adopted by the government to establish management and control rules for the staffing levels of public bodies.

Bill 15 (2014, chapter 17), the *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises*, assented to on December 5, 2014 is aimed at:

- enumerating government staffing by category;
- improving accountability in respect of staffing and complying with the general freeze on staffing levels announced;
- setting guidelines for service contracts for external resources.

At the end of 2015-2016, the government, through administrative efficiency gains, will have reduced public service staffing levels by roughly 2%.

Employer offers for renewal of collective agreements

The government presented its employer offers to its union partners on December 15, 2014 proposing:

- a negotiated five-year employment contract, from April 1, 2015 to March 31, 2020;
- a 3% increase in pay rates and scales from now to 2019-2020, that is, a pay freeze for the first two years and a 1% increase each year for the following three years.

The financial commitments made by the government in the course of renewing the agreements will have to take into account not only the cost of the increase in pay rates and scales, but also, in particular, the financial commitments inherent in all the obligations of the existing collective agreements.

The government's employer offers take into account, in particular:

- advancement through pay scales;
- contributions to government plans, such as the Québec Parental Insurance Plan (QPIP) or the Québec Pension Plan (QPP);
- updating of the provisions of the Government and Public Employees Retirement Plan (RREGOP) to ensure its long-term sustainability at reasonable costs for current and future employees and for the government;
- additional costs related to retirement plans;
- costs related to pay equity;
- changes in staffing levels.

The government is presenting offers that are coherent with the budget framework. They do not jeopardize achieving, then maintaining, a balanced budget. They do not require an increase in the fiscal burden on Quebecers.

- **Retention of experienced workers**

The reality of the labour market is changing and a trend toward a higher employment rate among those age 60 and over has been observed in many developed economies around the world, including Québec.

— This trend shows that, more and more, businesses and organizations are relying on more experienced workers.

The public sector is also affected by this trend. Thus, the Québec government is seeking to ensure that the working conditions of government employees allow experienced workers to remain at their jobs longer so that public services can profit from their expertise.

To that end, the government made legislative amendments in 2011 to raise from 35 to 38 the number of years of service for the purposes of calculating the retirement benefit for participants of RREGOP and the Pension Plan of Management Personnel (PPMP). Also, these three additional years will make it possible to increase the pension.

This change was aimed at encouraging experienced workers in the public sector to remain in the labour market longer.

In the same vein, working conditions in the public sector include measures to allow a gradual reduction in work time in order to ease the transition toward retirement. For experienced workers, this allows them to lighten their work load, while enabling them to continue applying their skills in the service of citizens and fostering the transfer of expertise to younger colleagues.

Funding and organization of health services

The government has committed itself to an important reform of health services and social services. This reform has three components and is aimed at:

- modifying the organization of services;
- improving access to services;
- ensuring effective, patient-based care.

The first component of the reform, Bill 10, adopted in February 2015, modifies the organization and governance of the health and social services network.

- More particularly, this new organization and governance structure is aimed at implementing management on two hierarchical levels rather than three.
- This plan provides for the creation of integrated health and social services centres (CISSS) and integrated university health and social services centres (CIUSSS) as of April 1, 2015.

Next, Bill 20 proposes mechanisms intended to foster access to the health and social services network. The goal of this bill is to optimize the use of the medical resources of the health system in order to improve access to family medicine and specialized medicine services.

Finally, the implementation of patient-based funding will be the third component of the proposed reform. The government wishes to undertake an important initiative with respect to the funding of the health and social services sector by implementing patient-based funding.

- Patient-based funding includes a number of incentives created to ensure the efficiency and the quality of care. It is also designed to ensure that funding for institutions reflects the volume of care provided.

Modernization of information systems

The availability of financial information is essential to financial management of the health sector. However, Québec lags behind in certain areas in this regard. In particular, due to multiple processing and cross-matching requests, it currently takes a great deal of effort to produce financial reports and the time required is incompatible with management needs in the field, particularly with regard to the comparative assessment of performance and determining the production costs of services associated with patients.

To improve financial reporting, the government wants to modernize information systems in the health sector. To support this initiative, the reserve to improve health information of the Ministère des Finances provides $10 million for 2015-2016, $20 million for 2016-2017 and $40 million for 2017-2018.

☐ Funding of education

As in the health sector, the government undertook reforms in the education networks aimed at:

- simplifying organization and structures with the creation of a single department, the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche, and the elimination of its regional directions;
- improving the effectiveness of funding, in particular by updating the fees required of certain categories of university students.

2015-2016 will be an occasion for making education, including higher education, one of the pillars of The Québec Economic Plan.

- The match between training and labour market needs is a key element in fostering workforce development; it depends above all on the quality of the academic training available and the educational success of young people.
- In addition, the new government immigration policy will be aimed at helping newcomers successfully integrate into the workforce on a level commensurate with their skills.

☐ Municipalities: recognizing subsidiarity in order to manage citizens' money effectively

Municipalities are local governments and as such, they have an important role to play in economic development, as well as in maintaining quality services offered to citizens in all regions of Québec.

— To that end, the government is supporting municipalities so that they can adequately assume their responsibilities.

Thus, the Québec government and the municipal sector have entered into the transitional fiscal pact for 2015, with financial transfers to municipalities being fixed at $598.5 million.

— It should be noted that, in all, the government will provide $3.2 billion in support of municipal bodies in 2015-2016.

The government is working to revise the local regional governance model with the objective of giving more flexible levers to regional county municipalities (RCMs) in the exercise of their responsibilities. The RCMs will fully appropriate for themselves this new governance which is established based on their realities and whose organization model of regional economic development will be more promising for their sector.

Also, the National Assembly adopted, on December 4, 2014, Bill 3 (2014, chapter 15), the *Act to foster the financial health and sustainability of municipal defined benefit pension plans*, whose major principles are those of ensuring the sustainability of retirement plans, remaining compatible with taxpayers' ability to pay and intergenerational fairness, protecting the pensions of retirees and prioritizing negotiation. This bill addressed a major issue regarding municipal finances.

Also, the government intends to continue its support to the municipal sector by:

— modernizing the legislative framework for municipalities;

— reaching a new multi-year fiscal pact.

Modernizing the legislative framework for municipalities

The government has made a commitment to redefine Québec-municipalities relations and to grant them greater autonomy. To that end, preparatory work has been launched via three initiatives: the Table sur les relations Québec-municipalités, the Table Québec-Montréal and the Table Québec-Québec, the latter two aimed more particularly at recognizing the unique responsibilities assumed by the metropolis and the national capital.

This new legislative framework will be based on major fundamental principles, such as subsidiarity, transparency, accountability, efficiency and simplification.

The government wishes to complete all this work by the end of 2016.

Reaching a new multi-year fiscal pact

The coming years will bring major challenges regarding sound management of public finances and offering quality services to the population. Citizens rightly expect the government and municipalities to meet these challenges together and collaborate in maintaining and improving public services, at the best possible cost and by the most effective level of government.

To that end, the government reiterates its intention to reach a multi-year fiscal and financial agreement for 2016 and subsequent years. It is the responsibility of the government and the municipalities to work together to find solutions to their common challenges that are sustainable in the long term. This new fiscal pact must be made for the benefit of taxpayers.

To successfully complete this process, maintenance of a balanced budget for the government is imperative.

The Québec government: a major partner in the celebrations marking the 375th anniversary of the founding of Montréal

The 2017 celebrations marking simultaneously the 375th anniversary of the Ville de Montréal, the 150th anniversary of the Canadian Confederation and the 50th anniversary of the 1967 World Exposition will be an opportunity to reaffirm Montréal's role as Québec's economic, cultural and historical metropolis. The government has confirmed that it will support Montréal in achieving this goal.

Legacies for Montréal's 375th anniversary

The government has made a commitment to invest in structuring projects reflecting the city's distinctive image, which will be offered as legacies for the 375th anniversary of the metropolis:

- redevelopment of Parc Jean-Drapeau;
- tourist development projects at Saint Joseph's Oratory;
- new pavilion to the Montreal Museum of Fine Arts;
- creation of greenways and blueways on the territory of the Communauté métropolitaine de Montréal (CMM);
- donation of a large-scale art work to the Ville de Montréal,
- rehabilitation of the passenger terminal and the Alexandra Pier;
- covering a portion of Autoroute Ville-Marie.

Support for the celebrations

The government has also made a commitment to offer financial support of up to $60 million for developing the program of celebrations if the Ville de Montréal, the federal government and private partners commit to providing substantial financial support for this major event.

Since the Ville de Montréal has announced $10 million in assistance for 2015 to support the celebrations, the Québec government is confirming its intent to participate by providing $15.5 million in 2015-2016, for a total participation of $17.9 million for the 2014-2016 period.

3.2 Budget management of public bodies

In addition to government departments, a number of entities deliver public services:

- the health and social services and education networks;
- special funds;
- other public bodies.

These public bodies play a complementary role to that of government departments in their mission and in the services they deliver to the population. They also differ in their funding methods.

Budget 2015-2016 provides for additional actions aimed at optimizing the management of public bodies in order to:

- bolster coherence between the budget planning of public bodies and government policy directions by tightening budget adoption rules;
- simplify structures by amalgamations and reorganisations within the government apparatus;
- manage the efforts required of public bodies in keeping with good governance practices;
- ensure a balanced budget for each of the entities.

These actions will ensure a better match between the policy directions of the government and those of the various bodies.

☐ Tighter budget adoption rules

Currently, approval of budget forecasts differs among public bodies. The legislative provisions governing approval provide for different procedures. Certain bodies:

- are required to have their budget forecasts approved by the government;
- must submit them to their minister responsible or to the Conseil du trésor;
- have their budget forecasts approved exclusively by their board of directors.

Current budget planning rules and practices lead to certain mismatches between government policy directions and their execution by bodies.

- In fact, discrepancies are noted between the budget forecasts established in the expenditure budget and tabled before the National Assembly and those contained in the bodies' annual budgets.
- Moreover, long delays are observed between the beginning of the fiscal year and the time the bodies' budgets are approved.

To bolster synchronization between government budget planning and that of public bodies, in keeping with government policy directions, the rules for adoption of their budgets will gradually be tightened.

This adjustment will allow for better integration of the government budget preparation process, in keeping with the principles of governance of public bodies.

☐ Simplification of administrative structures

Budget 2015-2016 provides for additional actions to consolidate the administrative structures of government bodies, while pursuing the performance of their mission. The government is therefore announcing, in particular:

- consolidation of the Régie des rentes du Québec (RRQ) and the Commission administrative des régimes de retraite et d'assurances (CARRA) in order to create a hub of expertise regarding retirement within the public sector and enhance delivery of services by the two existing organizations;
- integration of the activities of the Régie du cinéma into the Ministère de la Culture et des Communications as of July 1, 2015;
- consolidation of the Commission de la santé et de la sécurité du travail (CSST), the Commission des normes du travail (CNT) and the Commission de l'équité salariale (CES) by creation of the Commission des droits, de la santé et de la sécurité du travail (CDSST) as of January 1, 2016;
- consolidation of the Commission des relations du travail (CRT) and the Commission des lésions professionnelles (CLP) by creation of the Tribunal administratif du travail (TAT), as well as amalgamation of the special funds related to their funding as of January 1, 2016.

☐ Efforts by public bodies

The *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 November 2012* gave the Minister of Finance and the Chair of the Conseil du trésor the power to draft and propose to the Conseil du trésor, for 2013-2014 and 2014-2015, terms for reduction of spending by certain bodies and special funds, which include government corporations[2] other than government enterprises. As soon as they are approved by the Conseil du trésor, these terms are binding on the entity concerned.

To provide the means to achieve and maintain a balanced budget, it is proposed that these provisions be extended beyond 2014-2015.

Initially, to avoid interfering with the autonomy of the boards of directors, the efforts required of government corporations[3] will take the form of net results improvement targets.

The targets will be determined through collaboration between the Minister of Finance and the Chair of the Conseil du trésor and transmitted to the chairs of the boards of directors of government corporations through the minister responsible. Barring exceptional circumstances, these efforts will be transmitted before the beginning of the fiscal year to allow the boards of directors to take them into account in adopting their budgets.

Government corporations will be autonomous in choosing the actions they will implement to achieve the results required. They will be able to pinpoint the nature of the efforts to be carried out, while taking into account the specificities of their organizations' activities. They will nonetheless be required to comply with certain government policy directions which will be spelled out to them, for example, regarding management of staffing levels.

If it is foreseen that the net results objectives fixed will not be achieved, the Minister of Finance and the Chair of the Conseil du trésor will be empowered to jointly propose to the Conseil du trésor terms spelling out how government corporations' spending is to be reduced. However, as currently provided by law, the Caisse de dépôt et placement du Québec, Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec will continue to be excluded from the scope of these special initiatives regarding spending. The same will hold true for Revenu Québec and the Société des établissements de plein air du Québec.

The implementation of this new approach will require the adoption of legislative amendments.

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[2] Government corporations are legal persons to whose board of directors the government appoints the majority of the members, excluding bodies in the health and social services and education networks.

[3] Excluding government corporations conducting fiduciary transactions.

Efforts required of government corporations: stages of implementation

If required, the Minister of Finance, in collaboration with the Chair of the Conseil du trésor, notifies each minister of the efforts required of the government corporations in his or her portfolio. Such notification is made before the beginning of the fiscal year, barring exceptional circumstances.

The minister responsible for each government corporation transmits to the chair of the board of directors (CBD) the results-improvement target established for that corporation. The chief executive officer (CEO) is also informed.

- This approach could be part of an expectations mechanism notified by the minister to the CBDs of the corporations under his or her responsibility.

The board of directors takes into account the efforts required in adopting the budget for its corporation.

The CBD and the CEO determine the means to achieve the net results objective and confirm the approach adopted with the minister responsible.

The CEO transmits to the Ministère des Finances and to the Secrétariat du Conseil du trésor the forecasts integrating the efforts required, specifying the approach adopted.

The CBD, on behalf of the board of directors, is accountable before the government for how he or she exercises the responsibilities entrusted to him or her regarding achievement of the net result.

If it is foreseen that the net results objectives fixed will not be achieved, the Minister of Finance and the Chair of the Conseil du trésor are empowered to propose to the Conseil du trésor terms spelling out more precisely how government corporations' spending is to be reduced.

❑ Fiscal balance in public bodies

Budget 2015-2016 also marks the return to fiscal balance for public bodies included in the reporting entity. During the past year, the government has implemented the necessary measures to ensure that each non-budget-funded body and special fund has no annual deficit for 2015-2016, unless the projected deficit is equal to or less than its accumulated surplus as at March 31, 2015.[4]

■ Restoration plan for funding the Agence métropolitaine de transport

The Agence métropolitaine de transport (AMT) is a non-budget-funded body whose mission is to manage, operate and fund commuter train services, metropolitan express buses and metropolitan equipment.

- The AMT's current revenues are insufficient to cover growth in investments in recent years. Without recovery measures, recurrent deficits will lead the body into an accumulated deficit situation in 2015-2016.

The government wishes to restore the AMT's budgetary situation.

- For 2015-2016, to ensure the AMT's fiscal balance, the government will allocate an additional amount drawn from the amounts already earmarked for public transportation.

This contribution must be accompanied by the preparation of a durable solution by the AMT for the funding of the organization's activities.

■ Restoration plan for funding the Société québécoise des infrastructures

Concerned to ensure that the Société québécoise des infrastructures (SQI) continues to fulfil its mission as effectively as possible, the government has asked it to examine the whole of its mandate to review its business model in order to reduce its costs while satisfying the expectations of its clientele.

Cost structures and rate schedules in particular will be reviewed, with a view to an ever more disciplined management of public assets. To that end, a restoration plan will be presented by the SQI to the government in 2015-2016.

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[4] This excludes the portion of the deficits of public bodies that is temporary, caused by grants paid over longer periods than that provided for amortization of capital expenditures.

3.3 Improvement of budget practices

Budget 2015-2016 is an opportunity for the government to announce actions aimed at improving budget practices with:

- more detailed budgetary information to boost public trust regarding the state of public finances;
- an action plan to follow through on the recommendations of the examinations by the Auditor General of Québec;
- application of the cap on program spending and tax expenditures.

☐ Better budgetary information

Several actions have already been taken to improve budgetary information and boost public trust regarding the state of public finances.

■ Pre-election report

In the budget of June 4, 2014, the Minister of Finance made a commitment to entrust the Auditor General of Québec, as provided for in Bill 28, with the mandate to audit the pre-election report prepared by the Minister of Finance.

With this pre-election report, the government's goal is to:

- provide Quebecers with the most recent financial information and allow them to gauge whether the forecasts are reasonable;
- provide a common ground on which the political parties can propose their own budget plan.

To that end:

- the Ministère des Finances will be responsible for preparing and making public a pre-election report on the state of Québec's public finances no later than the 1st Monday of August before the fixed election date (1st Monday in October);[5]
- the Auditor General will be responsible for preparing a report containing his or her opinion on the plausibility of the forecasts and assumptions presented in the pre-election report. The Auditor General will be free to make any comments arising from the audit that he or she considers appropriate.

The pre-election report will contain the following information:

- the five-year economic forecasts and assumptions presented in the budget plan tabled with the previous Budget Speech;
- forecasts for the components of the government's financial framework contained in the budget plan;
- expenditure forecasts broken down by the government's sectors of activity;
- the reports referred to in section 15 of the *Balanced Budget Act* and section 11 of the *Act to reduce the debt and establish the Generations Fund*.

The first pre-election report should thus be made public by August 6, 2018 at the latest, in the event of an election on October 1, 2018.

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[5] The tabling of a pre-election report is not required where an election is called before the end of a government's term in office, such as in the case of a minority government.

Better presentation of consolidated budgetary information

Budget 2015-2016 is an opportunity for the government to pursue its efforts to improve the presentation and the transparency of budgetary information.

The government will gradually introduce, between now and 2017-2018, a presentation of consolidated revenue and expenditure by departmental portfolio. This presentation includes not only the department's revenue and expenditure, but also those of the special funds, bodies and networks under the Minister's responsibility.

In this respect, this document illustrates consolidated revenue and expenditure by portfolio for 2013-2014 according to the 2015-2016 budgetary structure. In Budget 2017-2018, the government will present a forecast of consolidated revenue and expenditure by portfolio for 2017-2018.

With this presentation, legislators will have access to harmonized budgetary information on a consolidated basis.[6]

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[6] This document illustrates, in Appendix 3 of Section D, consolidated revenue and expenditure by portfolio for 2013-2014 according to the 2015-2016 budgetary structure.

☐ Examination of budget documents by the Auditor General of Québec

On February 26, 2015, the Auditor General made public an analysis of the December 2014 Update. This audit was the third by the Auditor General in less than 18 months.

— This auditing mandate was carried out in response to a resolution by the National Assembly dated November 28, 2014.

In his report, the Auditor General qualified as reasonable the forecasts of the December 2014 economic and financial update for 2015-2016.

Following the previous two examinations, the Ministère des Finances and the Secrétariat du Conseil du trésor prepared action plans to follow through on the recommendations. Most of them have been or are in the process of being integrated into the budget documents.

Moreover, the Auditor General recognized, in his follow-up on the recommendations, that improvements had been made.

Between now and the audit of the pre-election report in 2018, and taking into account the Auditor General's recommendations, work will continue on improving the process of preparing government forecasts.

☐ Application of the cap on public spending

Disciplined and responsible management of public finances commands that any new initiative be adequately funded. To that end, the government favours measures that reduce spending by an equivalent amount by imposing a cap on spending.

The cap means that no new initiative may be authorized unless savings equivalent to the cost of the initiative are achieved elsewhere within the government.

Implementation of the cap on public spending requires special budgetary management related to the government's fiscal policy directions.

The cap on public spending applies specifically to initiatives and increases not provided for in the budget framework and that have a financial impact.

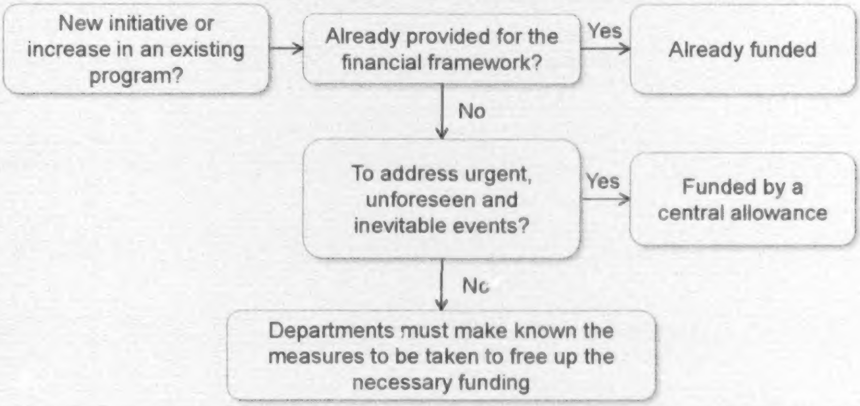
— Government departments must identify the measures that will free up the funds required to finance the initiative or increase, giving priority to spending reduction measures.

The cap on public spending does not apply to initiatives taken to address urgent and unforeseen events, such as natural disasters, given that they are unforeseeable, urgent and generally inevitable.

— These initiatives are funded out of amounts set aside for that purpose at the beginning of the year in the expenditure budget.

DIAGRAM A.1

Budgetary management of measures using the cap on public spending


New initiative or increase in an existing program?
Already provided for the financial framework?
Yes
Already funded
No
To address urgent, unforeseen and inevitable events?
Yes
Funded by a central allowance
No
Departments must make known the measures to be taken to free up the necessary funding

3.4 More effective management of the solidarity tax credit

❑ A tax credit to protect low incomes against tax and user-fee increases

In Budget 2010-2011, the Québec government announced the implementation of the solidarity tax credit (STC).

In application since July 2011, the STC replaced the refundable tax credit for the QST, the property tax refund and the refundable tax credit for individuals living in a northern village.

The structure of the CIS is based on the tax credits replaced and has three components:

- a component to mitigate the impact of the QST;
- a component for households that pay eligible housing costs;
- a component for individuals living in northern villages.

❑ Criticisms by the Auditor General of Québec regarding the solidarity tax credit

It became evident during the first years of the STC's application that some of its terms rendered its administration difficult and complex for both individuals and Revenu Québec.

Moreover, these shortcomings were noted by the Auditor General of Québec in his resources optimization audit regarding the STC:

- the number of households reporting that they are eligible for the housing component is higher than expected;
- the schedule to be completed to apply for the STC includes a number of questions that are difficult to interpret;
- the obligation for households to notify Revenu Québec of any change imposes administrative burdens;
- the mechanisms established by Revenu Québec do not make it possible to determine with certainty whether the dwelling gives entitlement to additional assistance;
- it is difficult for Revenu Québec to verify whether an individual shares his or her dwelling with other tenants.

❑ Major simplification of the administration of the solidarity tax credit

To improve management of the measure and follow through on the recommendations of the Auditor General of Québec, Budget 2015-2016 provides for a major reform of the administration of the STC that will facilitate its application.

The main features of the reform are the following:

- the tax assistance granted will be determined based on the household's situation on December 31 of the taxation year preceding the payment period;
- changes in the household's situation will no longer be reported to Revenu Québec during the year, in order to ease the current administrative burden;
- a new record for the housing component will be produced, in particular to enable verification of the information transmitted and control of tax expenditure;
- the number of payments will depend on the amount of annual assistance granted: a single payment if $240 or less, quarterly payments if more than $240 but less than $800, and monthly payments if $800 or more.

The new terms will apply to payments beginning in July 2016.

TABLE A.19

Comparison between the current and the new STC

	Current STC	New STC
Maximum amounts in 2016	2015 STC indexed	2015 STC indexed
Income used	Family income for the preceding taxation year	Family income for the preceding taxation year
Payment frequency	Monthly	Single payment if $240 or less. Four payments if assistance is more than $240 but less than $800. Twelve payments if assistance is $800 or more.
Payment period	From July of a particular year to June of the following year	From July of a particular year to June of the following year
Verification of taxpayer's situation	On December 31 and each month	On December 31 (or month of December)
Documents to complete	Tax return	Tax return
Supporting documents required for the dwelling	No	Yes
Calculations made	By Revenu Québec	By Revenu Québec
Payment method	Direct deposit only	Direct deposit only

☐ Results benefiting the government and citizens

The reform undertaken will optimize management of the STC by:

- reducing bureaucracy and management costs;
- freeing individuals from the obligation to inform Revenu Québec of any change of situation that could affect the assistance granted;
- making the application for the STC easier for households to understand;
- improving control of information entered in the tax return for Revenu Québec, in particular regarding the housing component.[7]

The changes to be made will make it possible to follow through on the recommendations of the Auditor General of Québec.

It should be noted that the objective of the reform undertaken is not to reduce the amounts paid to eligible household, but to improve management of the STC.

The reform is explained in greater detail in Appendix 2 of this section.

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[7] For example, the introduction of an information return provided by the lessor will make it possible to confirm a tenant's eligibility for the housing component.

CONCLUSION

Budget 2014-2015 has been an opportunity for the government to present a plan for restoring sound public finances and spurring economic recovery.

Budget 2015-2016 confirms the main economic and fiscal policy directions that will guide government action for 2015-2016 and the coming years in Québec, namely:

- the return to a balanced budget as of 2015-2016;
- alignment of spending growth with taxpayers' ability to pay;
- adequate funding of public services;
- an economic plan to foster growth in the economy and employment;
- reduction of the tax burden on taxpayers;
- ongoing debt reduction, a commitment to future generations.

APPENDIX 1: OMNIBUS BILL AND OTHER LEGISLATIVE MEASURES

Some measures of the budget require legislative amendments. The Minister of Finance will introduce an omnibus bill in the National Assembly during the spring 2015 parliamentary session. The bill will contain the legislative amendments that are not of a fiscal nature. It will include the following measures, in particular. The details of the measures are provided in the budget documents.

❑ Efforts by public bodies

The government is renewing the legislative amendments enabling it to ask government corporations to do their share.

So as not to interfere with the independence of boards of directors, the government will start by asking the corporations to make an effort by improving their net results. Improvement targets will be jointly set by the Minister of Finance and the Chair of the Conseil du trésor. The targets will be sent to the corporations' boards of directors by the responsible minister and the government corporations will be autonomous in choosing the actions they will implement to achieve the results required.

Subsequently, if necessary, the Minister of Finance and Chair of the Conseil du trésor will have the authority to submit proposals to the Conseil du trésor setting out the terms and conditions for reducing spending by certain corporations.

This approach will require the adoption of legislative amendments.

❑ Elimination of the Fund to Finance Health and Social Services Institutions

Given the planned elimination of the progressive health contribution, the *Act respecting the Ministère de la Santé et des Services sociaux* will be amended to abolish the Fund to Finance Health and Social Services Institutions (FINESSS) effective April 1, 2016.

❑ Curbing illegal online gambling

For the purpose of curbing illegal online gambling, amendments will be made to the *Consumer Protection Act*, the *Act respecting the Régie des alcools, des courses et des jeux* and the *Act respecting the Société des loteries du Québec* so that Internet service providers are not allowed to provide access to an online gaming and gambling website whose name is on a list of illegal sites drawn up by Loto-Québec.

❑ A single permit authorizing alcoholic beverages to be sold for consumption on the premises

To ease the administrative burden for bar and restaurant owners, legislative amendments will be made to introduce a single permit for the sale of alcohol for consumption on the premises for each class of permits. Bar, public house (pub) and tavern permits will be grouped into a single class, called "bar permit".

This measure will also require amendments to the *Act respecting the Société des loteries du Québec* to require government approval of the socioeconomic criteria used to determine the geographical distribution of video lottery terminals to be granted.

❑ Simplifying the administration of contraventions relating to alcoholic beverages

Legislative amendments will be made, including to the *Act respecting liquor permits*, to allow for greater flexibility in the application of administrative sanctions relating to identification of the brand of alcoholic beverages consumed.

The obligation of the Régie des alcools, des courses et des jeux (RACJ) to systematically suspend a permit if the holder has contravened the legislative provision relating to identification of the brand of the alcoholic beverage consumed will be replaced by a provision allowing the RACJ to suspend a holder's permit.

In addition, legislative provisions will need to be passed to empower the RACJ to impose the new administrative sanctions on a permit holder who commits an offence.

— The flexibility introduced will make it easier for the RACJ to take into account special circumstances that enable remedies other than just suspending the permit.

❑ Refocusing the contributions paid by Loto-Québec on its mission

As of 2015-2016, the contribution paid by Loto-Québec to the Assistance Fund for Independent Community Action, for the purposes of independent community action and international humanitarian action, will be financed through budgetary appropriations. This will require the adoption of legislative amendments to the *Act respecting the Société des loteries du Québec* as well as to certain provisions of the *Act respecting the ministère du Conseil exécutif* pertaining to the Assistance Fund for Independent Community Action.

☐ *Act to promote workforce skills development and recognition*

Amendments will be made to the *Act to promote workforce skills development and recognition* and the regulations made under the Act in order to:

— raise the payroll threshold at which employers become subject to the Act, from $1 million to $2 million;

— enable the use of new sums paid into the Workforce Skills Development and Recognition Fund by the Commission des partenaires du marché du travail.

❑ Measures announced in the December 2014 Update

■ Changes to the additional registration fee for vehicles having a large engine displacement

Québec's *Highway Safety Code* needs to be amended so that $8 million in 2015-2016 and $30 million in subsequent years can be deposited in the Land Transportation Network Fund (FORT). These sums will come out of the revenue generated by the additional registration fee for vehicles having a large engine displacement.

❑ Other legislative provisions to be introduced in 2015-2016

■ Bill respecting labour institutions

A bill respecting labour institutions will be introduced soon for the purpose of amalgamating:

- the Commission de la santé et de la sécurité du travail (CSST), the Commission des normes du travail (CNT) and the Commission de l'équité salariale;
- the labour-related administrative tribunals, i.e. the Commission des relations du travail and the Commission des lésions professionnelles, as well as the special funds related to their funding.

The bill will also provide for the deposit of the accumulated surplus of the Commission des normes du travail in the Generations Fund.

■ Integration of the Régie du cinéma into the Ministère de la Culture et des Communications

A bill will include provisions for abolition of the Régie du cinéma and integration of its activities into the Ministère de la Culture et des Communications as of July 1, 2015.

■ Review of the legislative and regulatory framework governing Québec's financial framework

Legislative amendments must be made to the following acts:

- the *Act respecting financial services cooperatives*;
- the *Act respecting insurance*.

APPENDIX 2: REVISION OF THE SOLIDARITY TAX CREDIT IN RESPONSE TO THE RECOMMENDATIONS MADE BY THE AUDITOR GENERAL OF QUÉBEC

❑ A tax credit to protect low incomes against tax and user-fee increases

In Budget 2010-2011, the Québec government announced the implementation of the solidarity tax credit (STC).

In application since July 2011, the STC replaced the refundable tax credit for the QST, the property tax refund and the refundable tax credit for individuals living in a northern village.

The structure of the STC is based on the tax credits it replaced and has three components:

- a component to mitigate the impact of the QST;
- a component for households that pay eligible housing costs;
- a component for individuals living in northern villages.

■ Bold objectives

The objective of the STC was to replace three separate measures with a single program that was simpler, more effective and more generous. It significantly enhanced the tax assistance compared to the previous measures.

In addition, to claim the tax credit, households simply have to fill out a form in their tax return and Revenu Québec will take care of determining the amount payable and making the payments.

Lastly, households can count on more liquid assets because they receive regular payments of the tax credit.

A tax credit that is difficult to administer

While the objectives of the STC are laudable, it became evident during the initial years of the tax credit's application that some of its terms rendered its administration difficult and complex for both individuals and Revenu Québec.

The main problems relate to:

- handling of changes in situation;
- eligibility for the housing component;
- verification and control of information.

Handling of changes in situation

Currently, beneficiaries of the STC are required to notify Revenu Québec of any change in their situation during the year that could affect the amount of assistance received; for instance, if the beneficiary moves or separates from his or her spouse. As a result, Revenu Québec must deal with a tremendous volume of communication, leading to cumbersome administrative procedures and considerable cost. Management of the tax credit alone currently requires nearly 200 full-time employees. Revenu Québec handles some 500 000 calls a year, in addition to mailing over six million letters.

Eligibility conditions for the housing component

In order to claim the housing component of the tax credit, a household must be the owner, tenant or subtenant of an eligible dwelling. When filling out the application for the tax credit, an individual must therefore be able to have a clear understanding of the meaning of "eligible dwelling" as defined in the tax return, which can prove difficult. For example, a dwelling is not deemed eligible if a public body has paid an amount toward the rent. However, some tenants do not know if their landlord has received financial assistance in respect of the dwelling they rent.

Verification and control of information

The fact that there is no official document to prove that a household is eligible for the housing component makes it very hard for Revenu Québec to verify and control the information received from the nearly 2.7 million eligible households.

A number of shortcomings in the STC were noted in the Auditor General of Québec's recent report to the National Assembly.

Criticisms by the Auditor General of Québec regarding the solidarity tax credit

The Auditor General of Québec conducted a value-for-money audit of the STC. The results, released in fall 2014, highlight a number of shortcomings in the tax credit:

- the number of households reporting that they are eligible for the housing component is higher than expected, raising the tax expenditure above the forecast amount;
- the schedule to be completed to apply for the STC includes a number of questions that are difficult to interpret;
- the obligation for households to notify Revenu Québec of any change imposes administrative burdens;
- the mechanisms established by Revenu Québec do not make it possible to determine with certainty whether the dwelling gives entitlement to additional assistance;
- it is difficult for Revenu Québec to verify whether an individual shares his or her dwelling with other tenants.

Recommendations of the Auditor General of Québec with regard to the STC

Two recommendations were made to the Ministère des Finances.

- Analyze, in collaboration with the concerned entities, the different scenarios for achieving the objectives related to the STC, and make the changes needed to optimize the efficiency and effectiveness.
- Conduct a follow-up of the results associated with the STC in particular to see whether the objectives set are achieved, whether the chosen parameters are applicable and whether the tax expenditure is consistent with forecasts, and, where needed, make the required changes.

Three recommendations were made to Revenu Québec.

- Identify and implement controls so that amounts are awarded in accordance with the parameters for the STC.
- Ensure that the computer system supports the work processes related to the STC and that, for future projects, guidelines are implemented to ensure that:
  - the quality assurance process is applied as it should be;
  - the final project report includes the relevant information and is communicated to governance bodies.
- Follow up and report on the costs and efforts related to the administration of the STC as well as on the performance of related activities.

❑ Major simplification of administration of the solidarity tax credit

To improve management of the measure and follow through on the recommendations of the Auditor General of Québec, Budget 2015-2016 provides for a major reform of the administration of the STC that will facilitate its application.

The main features of the reform are the following:

- the tax assistance granted will be determined based on the household's situation on December 31 of the taxation year preceding the payment period;
- changes in the household's situation will no longer be reported to Revenu Québec during the year, in order to ease the current administrative burden;
- a new record for the housing component will be produced, in particular to enable verification of the information transmitted and control of tax expenditure;
- the number of payments will depend on the amount of annual assistance granted: a single payment if $240 or less, quarterly payments if more than $240 but less than $800, and monthly payments if $800 or more.

The new terms will apply to payments beginning in July 2016.

No reduction in the assistance granted to eligible households

The objective of the reform is not to reduce the tax assistance granted to an eligible household. The amounts for each component will not decrease. Rather, the objective is to make the terms of the tax credit easier to understand and make the tax credit easier to administer.

Furthermore, Revenu Québec will continue to be responsible for determining the amount of the tax credit to which an eligible household is entitled; households will not have to calculate the amount of the tax credit payable.

TABLE A.20

Parameters of the solidarity tax credit
(dollars per year)

	2014	2015
1. QST component		
Basic amount	275	278
Amount for a spouse	275	278
Amount for a person living alone	132	133
2. Housing component		
Amount for a couple	647	654
Amount for a single person or a single-parent family	533	539
Amount respecting dependent children	114	115
3. Northern villages component		
Amount for an adult	1 620	1 637
Amount respecting dependent children	350	354
Reduction threshold		
Income threshold above which the amount of assistance is reduced	32 795	33 145
Reduction rate		
One component	3%	3%
Two or more components	6%	6%

■ Stable, foreseeable tax assistance

The amount of the tax credit will be determined solely on the basis of the information contained in the tax return regarding an individual's or a family's situation on December 31 of the previous taxation year. A change in situation during the year will no longer have to be reported to Revenu Québec. Only certain exceptional circumstances will still need to be reported to Revenu Québec, such as confinement to a prison or similar establishment, death of the eligible individual, and cessation of residence in Québec.

For example, the number of STC payments to be made between July 2016 and July 2017 will be determined based on the information contained in the tax return for the 2015 taxation year.

This change frees individuals from the obligation to inform Revenu Québec every time there is a change in the family's situation, in addition to simplifying management of the tax credit for Revenu Québec.

Proof of eligibility for the housing component required

In order to claim the housing component of the STC, a household will be required to prove its entitlement to the tax credit. To that end, Revenu Québec will introduce an information return that lessors will be required to complete and give to each of their tenants and subtenants. In the case of owners of a principal residence, a copy of their municipal tax account will serve as proof of eligibility.

Individuals with such a document will no longer have to inquire whether their dwelling is eligible for the housing component of the STC. Revenu Québec can use the document to verify that the information contained in the tax return is correct and ensure better control.

TABLE A.21

Comparison between the current and the new STC

	Current STC	New STC
Maximum amounts in 2016	2015 STC indexed	2015 STC indexed
Income used	Family income for the preceding taxation year	Family income for the preceding taxation year
Payment frequency	Monthly	Single payment if $240 or less. Four payments if assistance is more than $240 but less than $800. Twelve payments if assistance is $800 or more.
Payment period	From July of a particular year to June of the following year	From July of a particular year to June of the following year
Verification of taxpayer's situation	On December 31 and each month	On December 31 (or month of December)
Documents to complete	Tax return	Tax return
Supporting documents required for the dwelling	No	Yes
Calculations made	By Revenu Québec	By Revenu Québec
Payment method	Direct deposit only	Direct deposit only

Results benefiting the government and citizens

The reform undertaken will optimize management of the STC by:

- reducing bureaucracy and management costs;
- freeing individuals from the obligation to inform Revenu Québec of any change of situation that could affect the assistance granted;
- making the application for the STC easier for households to understand;
- improving control of information entered in the tax return for Revenu Québec, in particular regarding the housing component.[8]

The changes to be made will make it possible to follow through on the recommendations of the Auditor General of Québec.

Rigorous follow-up

To ensure that the reform of the STC meets it objectives, Revenu Québec and the Ministère des Finances will conduct rigorous, regular follow-up of the measure to see whether the objectives set are achieved and make the required changes in a timely manner.

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[8] For example, the introduction of an information return provided by the lessor will make it possible to confirm a tenant's eligibility for the housing component.

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INTRODUCTION

Budget 2015-2016 sets out the Québec Economic Plan for the 2015-2016 fiscal year and subsequent years.

The Economic Plan includes new interventions, which will total $121 million in 2015-2016, and will increase gradually to reach $1.3 billion in 2019-2020, i.e. in five years.

Thus, over the coming five years, the government plans to inject $3.4 billion into the economy, $2.5 billion of which will be tax relief for individuals and corporations.

Overall, these actions will result in $13 billion in investments and will sustain an average of 20 000 jobs per year from now until 2019-2020.

☐ $2.5 billion in tax relief over a five-year period

The government is determined to reduce the burden on taxpayers once a balanced budget has been achieved.

The budget forecasts that the progressive health contribution will be gradually reduced starting January 1, 2017, and then abolished.

— The gradual elimination of the health contribution will lower Quebecers' tax burden by $744 million over a full year, and by $1.7 billion over a five-year period.

With respect to businesses, the government is announcing that, starting on January 1, 2017, the general corporate income tax rate will be reduced to equal that of Ontario and that the tax burden for small and medium-sized businesses will be lowered in order to promote their growth.

— The tax burden on businesses will be reduced by $216 million over a full year and by $500 million over the next five years.

— This tax relief will be funded in part by the tightening of certain tax measures. With these actions, the government is prioritizing an improvement of the general tax system while preserving the competitiveness of the system applicable to certain key sectors of the economy.

☐ A budgetary situation that gives us freedom of choice

For nearly a year, the government has been stimulating economic recovery and job creation in Québec.

In this regard, as early as Budget 2014-2015, the government took action to restore public finances and implement initiatives that seek, among other things, to stimulate private investment and improve business productivity.

The recent economic performance is very encouraging:

— Québec's economic growth is accelerating;

— 51 700 jobs were created in Québec from May 2014 to February 2015.

With respect to public finances, the government anticipates a balanced budget in 2015-2016.

Over the coming years, the government will maintain efforts to ensure that government spending is managed soundly. This will enable the government to pursue the broad objectives it has set for itself, in particular lowering the tax burden and ensuring Québec's economic and social development.

Achieving a balanced budget: new momentum for Québec

As part of Budget 2015-2016, the government is announcing the Economic Plan, which it intends to implement over the coming years. The plan includes major initiatives that are part of a vision for Québec's economic development through improved structures.

The orientations chosen for the Economic Plan are aimed, firstly, at offering an initial response to certain recommendations of the Québec Taxation Review Committee and, secondly, at addressing the challenges of economic growth.

A response to the recommendations of the Québec Taxation Review Committee

In June 2014, the Minister of Finance announced the creation of the Québec Taxation Review Committee, a group of experts tasked with recommending, to the government, a reform that lays the foundations for a taxation system that is more favourable to economic growth. The Committee released its report on March 19, 2015.

The government agrees with the report and considers it important to reiterate its commitment to reducing the tax burden on individuals and businesses with funds made available by economic growth and a rigorous management of public finances.

The Economic Plan seeks to respond to certain recommendations of the Committee aimed at making Québec's taxation system more competitive, efficient and fair while ensuring funding for public services.

Of the Committee's 71 recommendations, 28 are being implemented or have given rise to a measure in Budget 2015-2016. The government will also launch a dialogue about the measures proposed by the Committee. Québec's last taxation review took place 20 years ago. It would be sensible to invite a public reflection in the current fiscal year.

An economic plan to meet the challenges of economic growth

Québec's economy is undergoing a significant transformation tied to demographic changes.

Historically, a growing working-age population was one of the major factors in Québec's economic growth. However, over the next few years, the pool of potential workers will remain essentially unchanged.

- Increases in the rate of employment and improvements in productivity will now be the main determinants of Québec's economic growth.

In order to act on these determinants, and in addition to tax relief for individuals and corporations (including SMBs), the Economic Plan proposes various actions that seek to:

- promote labour force performance though greater workforce participation and a better alignment between training and the needs of the labour market;
- stimulate private investment by fostering the development of strategic sectors of the economy and by developing Québec's assets, in particular through the Plan Nord and by implementing the maritime strategy;
- ensure that all communities develop economically and socially;
- support the development of Québec's cultural sector.

When combined, these measures represent $3.4 billion over the next five years, $2.5 billion of which are in the form of tax relief.

TABLE B.1

Financial impact of Québec Economic Plan measures[(1)]
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax relief for individuals	—	−141.3	−445.7	−627.6	−802.5	−2 017.1
Tax relief for corporations	−10.9	−68.5	−80.0	−129.1	−215.7	−504.2
Subtotal	**−10.9**	**−209.8**	**−525.7**	**−756.7**	**−1 018.2**	**−2 521.3**
New initiatives to promote labour market performance	−25.6	−37.5	−33.9	−34.5	−34.6	−166.1
New initiatives to stimulate private investment	−42.6	−65.9	−106.3	−92.9	−98.6	−406.3
New initiatives for communities and culture	−41.9	−47.7	−42.1	−48.7	−128.8	−309.2
Subtotal	**−110.1**	**−151.1**	**−182.3**	**−176.1**	**−262.0**	**−881.6**
TOTAL	**−121.0**	**−360.9**	**−708.0**	**−932.8**	**−1 280.2**	**−3 402.9**

(1) The tax measures set out in this document are discussed in detail in the document entitled *Additional Information*.

1. THE CHALLENGE OF ECONOMIC GROWTH IN QUÉBEC

1.1 Economic growth in Québec will be based on employment and productivity

In 2015 and 2016, Québec's real GDP is forecast to increase by 2.0% per year. It should be recalled that main drivers of economic growth, as measured by the increase in real GDP, are as follows:

- demographic growth, reflected in an increase in the population aged 15-64, who constitute the pool of potential workers;
- employment growth, reflected in an increased rate of employment, or, in other words, an increase in the share of the working-age population that is employed;
- improved productivity, i.e. increased production per worker.

As the following table illustrates, before 2014, the increase in GDP was based more or less equally on the three factors listed above. However, the pool of potential workers has recently stopped increasing.

An increase in the rate of employment, and growth in productivity, will now be the main factors sustaining economic growth. To ensure that growth can continue, the contribution made by these factors will have to be increased.

- In this context, the Québec Economic Plan seeks, among other things, to strengthen the contribution of employment and productivity to economic growth.

TABLE B.2

Economic growth factors in Québec
(average annual percentage change, and contribution in percentage points)

	Historical			Forecast			
	1982-2007	2008-2013	2014	2015	2016	2017	2018-2020
Real GDP (percentage change)	2.1	1.3	1.5	2.0	2.0	1.7	1.6
Growth factors (contribution):							
– Pool of potential workers[1]	0.6	0.6	–0.1	0.0	–0.1	–0.1	–0.2
– Employment rate[2]	0.6	0.4	0.0	0.9	0.9	0.9	0.8
– Productivity[3]	0.8	0.4	1.5	1.1	1.1	0.9	0.9

Note: Since the figures have been rounded, they might not add up to the indicated total.
(1) Population aged 15 to 64.
(2) Total number of workers among population aged 15 to 64.
(3) Real GDP by employment.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.2 The Economic Plan and the challenge of growth

The Economic Plan responds to the challenge of ensuring that economic growth continues in Québec. Among other things, it seeks to increase employment integration and work effort, and to stimulate investment and productivity.

More specifically, the Québec Economic Plan:

- lowers the tax burden on individuals and businesses with a view to encouraging work and investment;
- maximizes the development of the available labour force by ensuring a better alignment between training and employment and by promoting the full participation of immigrants in the labour market;
- stimulates private investment by fostering the development of key sectors of Québec's economy.

The Québec Economic Plan sends a clear signal about the economic and fiscal conditions that must prevail in Québec in the future. It seeks to provide Québec workers and businesses an economic environment that helps them realize their full potential.

2. TAX RELIEF FOR QUEBECERS

The 2009 recession caused a significant budget deficit. By 2010, the government, like many others in the world, introduced a plan to return to a balanced budget. The government met its deficit-reduction objectives, and even exceeded them in the first three years of the plan. In December 2013, the government decided to delay the restoration of a balanced budget by two years. The budget tabled in June 2014 was the opportunity for the new government to table a new plan, confirming that a balanced budget would be achieved in 2015-2016 by controlling expenses and revitalizing the economy.

— It is important to bear in mind that the achievement of a balanced budget is a responsible objective, in that it prevents an uncontrolled increase in the public debt that jeopardizes the funding of public services and undermines economic growth.

— However, a balanced budget is not an end in itself, but rather, a new start that enables us to establish new objectives, such as lowering Quebecers' tax burden.

☐ Lowering the tax burden on individuals and stimulating economic growth in Québec

Once a balanced budget is achieved by controlling the increase in expenditures, the government intends to lower the tax burden on individuals while favouring growth in the economy.

To follow through on this intention, the government has drawn on the work done by the Québec Taxation Review Committee. Specifically, Budget 2015-2016 includes the following three measures:

— the gradual elimination of the health contribution;

— increasing the tax credit for experienced workers;

— introducing a tax shield.

The gradual elimination of the health contribution as of January 1, 2017, will lower the tax burden for more than 4.5 million taxpayers.

Furthermore, the increase in the tax credit for experienced workers and the introduction of a tax shield will help keep experienced employees in their jobs and encourage Quebecers to increase their labour supply.

☐ Lowering the tax burden on Quebecers by $2 billion over a four-year period

The new initiatives announced in this budget will make it possible to reduce the tax burden on Québec individuals as of 2016-2017. This tax reduction will represent more than $800 million per year in 2019-2020.

Over the four-year period from 2016-2017 to 2019-2020, $2 billion will be returned to Quebecers, including:

— $1.7 billion from the abolition of the health contribution;

— $268 million attributable to work incentives.

TABLE B.3

Changes in income tax burden on individuals
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	Total
Budget 2015-2016					
Gradual elimination of the health contribution	−80.5	−375.2	−549.0	−744.0	**−1 748.7**
New increase in the tax credit for experienced workers	−26.8	−56.4	−83.5	−83.2	**−249.9**
– Gradual increase in the eligibility age of the tax credit with respect to age	18.0	38.0	57.0	77.0	**190.0**
Net impact: experienced workers	*−8.8*	*−18.4*	*−26.5*	*−6.2*	**−59.9**
Introduction of a tax shield	−52.0	−52.1	−52.1	−52.3	**−208.5**
Subtotal – Budget 2015-2016	**−141.3**	**−445.7**	**−627.6**	**−802.5**	**−2 017.1**
Budget 2014-2015					
Increase in the tax credit for experienced workers	−15.0	−15.4	−15.8	−16.2	**−62.4**
New income tax credit for seniors' activities	−5.0	−5.0	−5.0	−5.0	**−20.0**
Subtotal – Budget 2014-2015	**−20.0**	**−20.4**	**−20.8**	**−21.2**	**−82.4**
TOTAL – Income tax relief	**−161.3**	**−466.1**	**−648.4**	**−823.7**	**−2 099.5**

2.1 Gradual elimination of the health contribution

The government has made major efforts to restore its public finances. By achieving and maintaining a balanced budget, the government will have the leeway to make choices. In this regard, the government made the commitment to reduce the tax burden on individuals once the budget is balanced.

In Budget 2015-2016, the government is honouring its commitment by announcing a three-year phase-out of the progressive health contribution payable over and above the 1.75 percentage point increase in income tax for high income earners.

Recommendation of the Québec Taxation Review Committee

The Québec Taxation Review Committee recommends the abolition of the health contribution to reduce the tax burden on individuals and to increase Québec's economic efficiency. In its view:

- it is difficult to justify the health contribution because it is not indexed to the cost of health services or determined by service use;
- it creates inconsistencies in the effective marginal tax rates, resulting in rates over 50%.

2.1.1 A $744-million tax cut that will affect 4.5 million taxpayers

The gradual elimination of the health contribution beginning in 2017 will substantially reduce Quebecers' tax burden. Ultimately, this tax cut will amount to $744 million.

The three-year phase-out of the progressive health contribution means:

- a full exemption for an additional 2.1 million taxpayers as of 2017;
- a gradual reduction for 2.3 million taxpayers in 2017 and 2018;
- a complete abolition for 4.5 million taxpayers in 2019.

TABLE B.4

Reduction in the health contribution by level
(dollars, unless otherwise stated)

	Current health contribution		Reduction			
	Number	**Amount**	**2017**	**2018**	**2019**	**Total**
1st level	2 122 173	100	–100	—	—	–100
2nd level	2 184 952	200	–75	–45	–80	–200
3rd level	154 528	1 000	–200	–200	–600	–1 000
Reduction in tax burden, millions $(1)	—	—	**375**	**174**	**195**	**744**

(1) The reduction in the tax burden is presented in fiscal years. As such, the amount for 2017 represents the reduction in tax burden in 2017-2018.

The health contribution

Introduction of the health contribution

In its 2010-2011 Budget Speech, the Québec government announced the introduction of a health contribution, per adult, of $25 in 2010,[1] $100 in 2011 and $200 in 2012.

- Households whose family income is below the exemption thresholds provided for in the Québec public prescription drug insurance plan were exempted from paying the health contribution.
- Seniors receiving at least 94% of the Guaranteed Income Supplement were also exempted from the health contribution.

The health contribution amounts are transferred to health care institutions by way of the Fonds de financement des établissements de santé et de services sociaux (FINESSS).

Progressive health contribution

Effective January 1, 2013, the uniform health contribution was replaced by a new progressive health contribution along with a 1.75 percentage point increase in taxable income of over $100 000.

In 2015-2016, the amounts to be transferred to FINESSS are estimated at $1 148 million, i.e.:

- $734 million from the new progressive health contribution;
- $414 million from the 1.75 percentage point tax increase.

As of the 2017 tax year, the progressive health contribution will be gradually eliminated and the additional tax of 1.75 percentage point attributable to the health contribution will be incorporated into the tax table.

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[1] The health contribution was $50 in 2010. However, since it did not apply until July 2010, it was equivalent to $25 for the 2010 tax year.

☐ Health contribution to be eliminated over three years

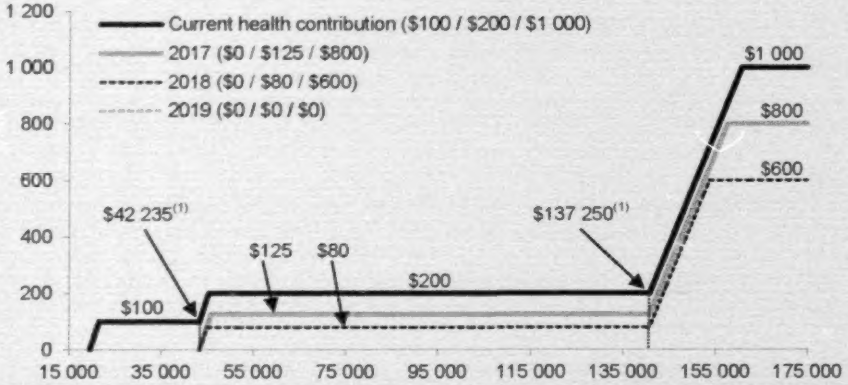
As of 2017, all taxpayers whose net income does not exceed $42 235 will be exempted from paying a health contribution.

Taxpayers whose net income is greater than $42 235 and does not exceed $137 250 will see their maximum contribution reduced by $200, to $125 in 2017 and to $80 in 2018.

Taxpayers whose net income is over $137 250 will see their maximum contribution reduced by $1 000, to $800 in 2017 and $600 in 2018.

GRAPH B.1

Illustration of gradual elimination of health contribution
(dollars)



(1) Expected thresholds for 2017.

☐ Impact of the abolition of the health contribution on taxpayers

As of 2017, an additional 2.1 million taxpayers will be exempted from paying a health contribution, bringing the total number of exempted taxpayers to 4.4 million.

- These taxpayers, newly exempted from paying a health contribution, will benefit from 48% of the $375-million tax cut for 2017-2018.
- Furthermore, 45% of the tax cut will benefit taxpayers whose health contribution is between $101 and $200.

■ Health contribution will decrease even more in 2018

In 2018, the health contribution will be further reduced to:

- $80 for taxpayers who currently pay $200;
- $600 for those who currently pay $1 000.

The tax cut in 2018-2019 will amount to $549 million, of which 36% will benefit low-income taxpayers and 52%, middle-class taxpayers.

■ Health contribution will be fully eliminated in 2019

As of the 2019 tax year, the health contribution will be abolished for all Quebecers.

As such, close to 85% of the $744-million tax cut in 2019-2020, will benefit low- or middle-income households.

TABLE B.5

Tax relief from the abolition of the health contribution
(millions of dollars, unless otherwise stated)

	2017-2018		2018-2019		2019-2020	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
1st level	179	48	198	36	200	27
2nd level	169	45	285	52	415	56
3rd level	28	7	66	12	129	17
TOTAL	**375**	**100**	**549**	**100**	**744**	**100**

❑ $744-million tax cut

For the government, the impact of the reduced tax burden for taxpayers will be $81 million in 2016-2017 and $744 million once the health contribution is eliminated.

TABLE B.6

Financial impact of gradual elimination of health contribution
(millions de dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Gradual elimination of health contribution	—	−81	−375	−549	−744

2.2 Introduction of a tax shield

A main concern of many OECD countries involves determining how much financial aid to give individuals to meet their needs without undermining their incentive to work.

Tax assistance to individuals is generally reducible according to income and is intended to help lower-income households. However, the prospect of losing this tax assistance once income exceeds a certain threshold can diminish an individual's motivation to work more.

To make work more appealing, the government acknowledges that it must improve the financial incentives offered to Québec workers. In this regard, the Québec Taxation Review Committee recommends creating a new measure: the tax shield.

Recommendation of the Québec Taxation Review Committee

In its report, the Québec Taxation Review Committee recommends creating a new measure, the tax shield, to protect households from a large tax hike in the event of an increase in their annual work income.

The tax shield would allow eligible households to limit the loss of their refundable tax credits, which are reducible according to income, thereby creating an incentive to work more.

The introduction of a tax shield would also reduce the problem of high effective marginal tax rates affecting certain households.

The proposed tax shield would apply in the form of a deduction against net income, used to reduce the following social-fiscal transfers:

- the work premium;
- the solidarity tax credit;
- the tax credit for childcare expenses;
- the premium for experienced workers, a measure proposed by the Committee to replace the current non-refundable tax credit for experienced workers.

The Committee proposes allowing each household whose work income increased over the previous year to claim a deduction against their net income.

This deduction would be equal to 50% of the increase in household income, up to $5 000. Therefore, for the purpose of calculating the socio-fiscal transfers, the maximum deduction would be $2 500 per household.

2.2.1 A measure that encourages individuals to work more

The Québec tax regime offers significant financial support to individuals in the form of transfers, most of which are reducible according to income.

However, individuals who improve their financial situation by working more should not be penalized by having a large portion of their tax assistance taken away.

To ensure that an increase in work income does not result in a reduction in socio-fiscal transfers and undermine the incentive to work, the government will introduce a tax shield on January 1, 2016.

When work income increases, the tax shield will offset the loss of socio-fiscal transfers that serve specifically as a work incentive, namely:

— the work premium;

— the tax credit for childcare expenses.

Tax shield for workers

Eligibility

Beginning in 2016, households may request a tax shield benefit on their tax returns if they meet the following criteria:

- their work income[1] increased from the previous year;
- their socio-fiscal transfers associated with the work premium[2] and tax credit for childcare expenses[3] are reduced due to the increase in their work income.

Determining the tax shield benefit

To determine the value of the tax shield benefit, households may deduct from their net family income[4] an amount equal to 75% of the following, whichever is lower:

- the increase in work income;
- the increase in household net income;
- a maximum of $2 500 for each spouse. Therefore, if the work income of each spouse increases by $2 500 or more, the maximum for the couple will be $5 000.

Reducing the net family income will result in a smaller reduction in socio-fiscal transfers. As such, the eligible household will receive tax assistance allowing it to recover up to 75% of the transfers relating to the work premium and the tax credit for childcare expenses.

[1] Essentially, the income considered is the sum of the household's work income and net business income.
[2] In 2016, the work premium will be reduced to 10% once income reaches $10 466 for a single person and $16 208 for a couple.
[3] The tax credit for childcare expenses granted to families is reduced from 75% to 26% depending on income. The rate is applied on paid childcare expenses.
[4] The net family income used to reduce the work premium and the tax credit for childcare expenses.

❑ Illustration of the tax shield effect on the disposable income of a couple with one child

Let us take the example of a couple with a three-year-old child attending a private unsubsidized daycare and whose work income is $40 000 in 2015. In 2016, each spouse's work income will increase by $2 500, raising the household income to $45 000 for the year.

Following this $5 000 increase in work income, this household would lose $760 in socio-fiscal transfers under the current tax regime:

- $500 due to the reduction in the work premium from $1 000 to $500;
- $260 due to the reduction in the tax credit for childcare expenses from $4 680 to $4 420.

However, this family will qualify for the tax shield and will be able to deduct $3 750, or 75% of the $5 000 increase in work income, from its net income.

As a result of the tax shield, this household will be able to recover $570, compensation equivalent to 75% of the loss of the two socio-fiscal transfers. This tax assistance will therefore allow this couple to keep a larger part of the transfers they were accustomed to receiving.

TABLE B.7

Illustration of the tax shield benefit for a couple with one child and whose family income will rise to $45 000 following an increase in earned income of $5 000 – 2016
(dollars)

	Change in disposable income		
	Without tax shield	**With tax shield**	**Tax shield benefit**
1. Increase in earned income	**+5 000**	**+5 000**	—
2. Tax payable	−800	−800	—
3. Mandatory contributions(1)	−944	−944	—
4. Socio-fiscal transfers			
– Work premium	−500	−125	**375**
– Tax credit for child care expenses	−260	−65	**195**
– Other transfers(2)	−300	−300	—
5. Increase in the tax burden (2. + 3. + 4.)	**−2 804**	**−2 234**	**570**
6. Additional disposable income (1. + 5.)	**2 196**	**2 766**	**570**

(1) The contributions include prescription drug insurance, the HSF contribution, the health contribution, the RQAP contribution and the QPP contribution.

(2) The other transfers include child support, the solidarity tax credit, the shelter allowance program and the refundable tax credit for medical expenses.

The amount of tax assistance granted through the tax shield will vary depending on marital status and household income.

A couple with one child and whose earned income will increase by $5 000 compared with the previous year will receive a benefit totalling:

- $259 for a family income of $20 000;
- $375 for a family income of $30 000;
- $570 for a family income of $40 000.

TABLE B.8

Tax shield benefit for a couple with one child[1] and whose earned income will increase by $5 000 – 2016

(dollars)

Earned income after an increase of $5 000	Without tax shield	With tax shield	Tax shield benefit[2]
10 000	−3 673	−3 673	—[3]
20 000	−1 184	−925	**259**
30 000	−1 476	−1 101	**375**
40 000	−2 464	−1 894	**570**
45 000	−2 804	−2 234	**570**
50 000	−2 113	−1 608	**505**
55 000	−1 854	−1 659	**195**
60 000	−1 549	−1 549	—

(1) Couple with two equal incomes and one child attending a private, non-subsidized childcare centre. Each spouse will increase his or her earned income by $2 500.

(2) For an income below $34 835, the tax shield is less, as the household's tax credit for childcare expenses is not subject to any reduction.

(3) At a $10 000 income level, there will be no reduction to the household's socio-fiscal transfers.

The problem of high marginal effective tax rates

The problem of high marginal effective tax rates is due to the conjunction of the personal income tax system and the socio-fiscal transfer programs implemented to benefit the same individuals. The coexistence of two different mechanisms defined by income may result in a significant reduction to the additional income of a tax payer who increases his or her work effort.

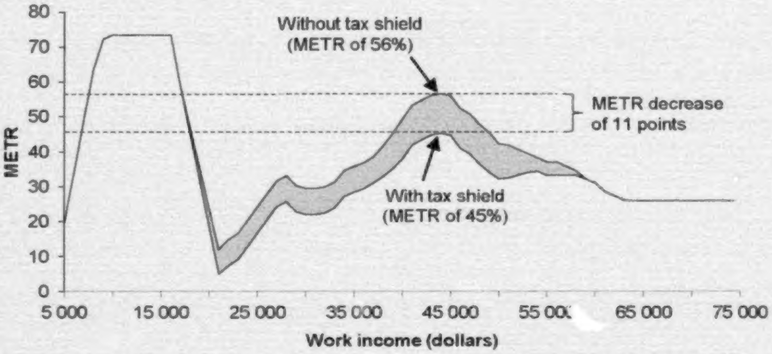
- The combined effect of the decrease in transfers and the increase in taxes on additional income is called the marginal effective tax rate (METR).

For certain taxpayers, an increase in income could significantly raise their tax burden, even in excess of 60%. In other words, a taxpayer will lose $3 000 in taxes and socio-fiscal transfers if his or her income increases by $5 000.

The tax shield will mitigate the problem of high marginal effective tax rates.

- For example, under the current plan, the marginal effective tax rate of a couple with one child and whose earned income has increased by $5 000 to $45 000 in 2016 would be 56%.
- However, with the tax shield, the marginal effective tax rate will lower to 45%, a decrease of 11 percentage points.

Impact of the tax shield on the marginal effective tax rate of a couple with one child and whose earned income will increase by $5 000 – 2016
(per cent)



❑ Tax assistance for low- and middle-income workers

Workers whose income falls below the median family income will be the prime beneficiaries of the tax shield.

— More than 90% of this tax assistance will be paid to households whose family income does not exceed $50 000.

— Close to 96% of this tax assistance will be paid to households whose family income does not exceed $75 000.

TABLE B.9

Distribution of targeted households and cost of the tax shield by income bracket – 2016

	Households		Cost	
	Numbers	Per cent	Millions $	Per cent
From $0 to $15 000	92 860	24.4	10.9	20.9
From $15 000 to $25 000	126 127	33.1	17.5	33.7
From $25 000 to $50 000	110 086	28.9	18.8	36.1
From $50 000 to $75 000	25 079	6.6	2.6	4.9
From $75 000 to $100 000	697	0.2	0.1	0.1
$100 000 or more	26 505	7.0	2.2	4.2
TOTAL	**381 353**	**100.0**	**52.0**	**100.0**

Note: Since the figures have been rounded, they might not add up to the indicated total.

2.2.2 A $52-million benefit for 400 000 households

The implementation of this tax measure will, as of 2016,[1] provide total compensation of $52 million to workers who would otherwise have experienced a more significant loss of socio-fiscal transfers following additional work effort.

The tax shield will allow close to 400 000 households to benefit from an average of $130 in additional tax assistance each year.

TABLE B.10

Financial impact of the tax shield for workers
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Establishment of the tax shield for workers	—	−52	−52	−52	−52

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[1] The amount of tax assistance granted through the tax shield will be claimed on the 2016 income tax return, in the spring of 2017.

2.3 Enhancement of the work incentive for experienced workers

Québec is transitioning towards an older demographical structure. This shift will result, inter alia, in a smaller working age population, a labour shortage in certain sectors of activity, and a loss of expertise due to the retirement of the baby-boomer cohort.

Facing these challenges, it is essential to focus on the skills of experienced workers by encouraging them to integrate into or remain as long as possible in the labour market. With this in mind, the Québec Taxation Review Committee recommends augmenting the incentives offered to experienced workers.

Recommendation of the Québec Taxation Review Committee

The Québec Taxation Review Committee recommends replacing the current tax credit for experienced workers with a new premium that would be added to the work premium. This premium constitutes an incentive based on earned income to further promote the retention of experienced workers or their return to the labour market.

The Committee's approach will consist of:

- increasing the eligibility age to provide tax assistance to workers aged 60 and over, the age around which people usually plan to retire;
- improving tax assistance by raising the eligible excess earned income from $4 000 to $10 000 and increasing the tax credit rate to augment the work incentive;
- reducing tax assistance on the basis of earned income in order to offer a more generous premium to workers with more modest incomes.

Budget 2015-2016 includes two tax measures for seniors:

- the gradual improvement over three years of the tax credit for experienced workers;
- the gradual increase from 65 to 70 of the eligibility age for the tax credit with respect to age in order to align tax assistance with the work incentive and account for new labour market realities.

Therefore, the amounts made available through the revised tax credit with respect to age will be entirely reallocated to funding the incentive-to-work measure in favour of experienced workers aged 63 and over.

To avoid penalizing those tax payers who have already retired, the increase to the tax credit eligibility age will be deferred by one year annually. No individual who currently receives the tax credit will lose it.

TABLE B.11

Financial impact of the measures for experienced workers
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Gradual improvement of the tax credit for experienced workers	—	−27	−56	−84	−83
Gradual increase of the eligibility age for the tax credit with respect to age	—	18	38	57	77
TOTAL	**—**	**−9**	**−18**	**−27**	**−6**

2.3.1 Gradual improvement of the tax credit for experienced workers

The tax credit for experienced workers will be improved gradually over a period of three years, beginning January 1, 2016.

In this regard, Budget 2015-2016 includes:

— a gradual reduction of the eligibility age from 65 to 63;

— a gradual rise in the maximum excess earned income[2] amount to $10 000 by 2018 for workers aged 65 and over.

This improvement will raise the eligible excess earned income cap to $10 000, which is the level that was expected when the tax credit for experienced workers was first established.

Review of the tax credit for experienced workers

In Budget 2011-2012, it was announced that as of 2012, workers aged 65 and over could claim a non-refundable tax credit intended to offset Québec income tax.

The value of the tax credit corresponds to 16% of each dollar of earned income in excess of $5 000, up to an excess work income of $4 000[1] in 2015.

- The tax credit rate is 15.04%, accounting for the 6% earned income deduction already available to workers.

By applying the tax credit rate, an eligible worker may benefit from a maximum tax assistance of $602 per year.

In Budget 2013-2014, the government chose to reduce the tax assistance granted to experienced workers. Due to changes in demographics and the resulting need to establish incentive measures to promote greater participation in the labour market, the government chose to reduce the cap to the level originally expected.

[1] When the measure was established, the excess earned income cap initially was to reach $10 000 in 2016.

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[2] Excess earned income refers to income earned over the course of one year in excess of $5 000.

❑ Gradual decrease in the eligibility age

Over the past decades, the average retirement age in Québec has lowered to 62 in 2014, compared with 65 in 1976. In this context, the government must better target experienced workers with the tax credit in order to offset early retirement of Québec workers.

In this regard, the eligibility for this tax credit will be extended to workers aged 63 and over in order to bring the tax assistance eligibility age closer to the actual age at which workers intend to retire.

❑ Gradual increase of excess earned income to $10 000

Financial incentive is one of the major factors influencing a worker's decision to remain in the labour market. More generous tax assistance for experienced workers therefore would provide a greater incentive to work.

For this reason, the tax credit for experienced workers will be improved and adjusted based on the age of the worker. Eventually, the excess earned income eligible for the tax credit will be:

- $6 000 for workers aged 63;
- $8 000 for workers aged 64;
- $10 000 for workers aged 65 and over.

A new tax benefit of up to $902 and $1 203 will be granted to workers aged 63 and 64, respectively.

Workers aged 65 and over will be able to claim greater tax assistance, up to $1 504 per year, which represents an increase of $902 compared with the current tax credit.

TABLE B.12

Eligible excess earned income and maximum tax credit according to age
(dollars)

	Current	Gradual Improvement		
	2015	2016	2017	2018
Eligible excess earned income				
63 years old	—	—	4 000	6 000
64 years old	—	4 000	6 000	8 000
65 and over	4 000	6 000	8 000	10 000
Maximum tax credit(1)				
63 years old	—	—	602	902
64 years old	—	602	902	1 203
65 and over	602	902	1 203	1 504

(1) Maximum tax credit corresponds to multiplication of excess earned income by tax credit rate of 15.04%.

❑ Tax assistance for low- and middle-income workers

To provide tax assistance to workers most likely to respond to financial incentives, this measure will be reduced on the basis of income.

The maximum value of the tax credit will be reduced by 5% for each additional dollar of earned income that exceeds the reduction threshold applicable to certain non-refundable tax credits.[3] In 2018, experienced workers will benefit from tax assistance for earned income up to $65 150.

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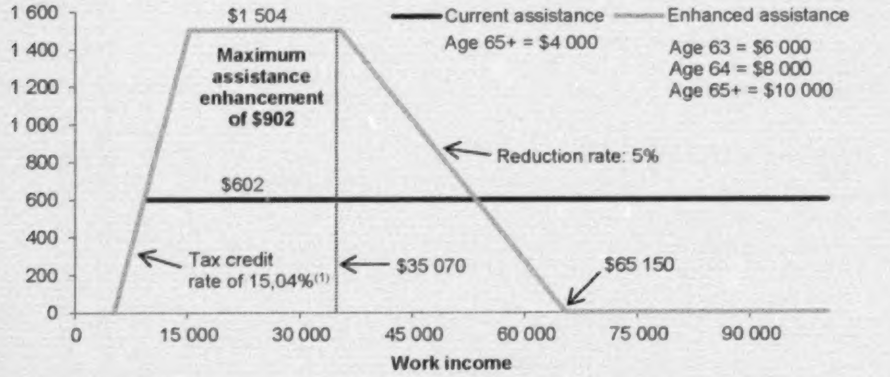
[3] This is the same income threshold used to reduce amounts granted with respect to age, for a person living alone, and for retirement income. This threshold, indexed annually, should reach $35 070 in 2018.

GRAPH B.2

Improvement of the tax credit for workers aged 65 and over – 2018
(dollars)



(1) The tax credit rate is 15.04%, which is the first tax rate of 16%, adjusted to account for the 6% earned income deduction already granted to workers.

❑ Protection for workers benefiting from the existing tax credit

Workers aged 65 and over who may currently be benefiting from the tax credit for experienced workers will benefit from disposable income loss protection after this modification. They will receive assistance equivalent to at least the existing tax credit.

Illustration of protection of existing tax credit beneficiaries

Reducing the tax credit based on income will lower the tax assistance granted to experienced workers with an employment income exceeding the reduction threshold.

For example, an experienced worker benefiting from the existing tax credit with an employment income of $60 000 will see his tax assistance reduced.

- According to the existing regime, this worker would benefit from a tax credit of $602.[1]
- According to the announced modification, the worker would benefit from a tax credit of $257.50.[2]

In this situation, the protection will allow this worker to maintain a minimum tax assistance of $602, regardless of his income level.

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[1] The tax credit is obtained by multiplying either the $4 000 ceiling or the employment income exceeding $5 000, whichever is lower, by the tax credit rate of 15.04%.

[2] The tax credit is obtained by multiplying either the $10 000 ceiling or the employment income exceeding $5 000, whichever is lower, by the tax credit rate of 15.04%, i.e. $1 504. This maximum amount is then reduced on the basis of employment income starting at $35 070 at a rate of 5% in 2018.

❑ Illustration of enhanced tax credit for experienced workers

Over time, a 63-year-old worker will be able to avail himself of a new tax advantage of up to $902 to encourage him to stay in the labour market.

A worker aged 65 and over will benefit from additional tax assistance of:

- $338 for an employment income of $20 000;
- $902 for an employment income of $30 000;
- $656 for an employment income of $40 000.

Contrary to the existing tax credit, the enhanced tax credit will be reduced on the basis of income. However, implementation of the protection for beneficiaries of the existing tax credit will enable this worker to keep his $602-tax assistance, regardless of his income level.

TABLE B.13

Illustration of tax gain for a 63-year-old worker and a worker aged 65 and over – 2018
(dollars)

	Age 63			Age 65 and over		
Employment income	**Existing**	**Enhanced**	**Total**	**Existing**	**Enhanced**	**Total**[1]
5 000[2]	—	—	—	—	—	—
10 000[2]	—	—	—	—	—	—
20 000	—	310	**310**	602	338	**940**
30 000	—	902	**902**	602	902	**1 504**
40 000	—	656	**656**	602	656	**1 258**
50 000	—	156	**156**	602	156	**758**
60 000	—	—	—	602	—	**602**
70 000	—	—	—	602	—	**602**
80 000	—	—	—	602	—	**602**

(1) Thanks to the existing tax credit protection for beneficiaries, this worker will benefit from a minimum tax credit of $602, meaning he will not experience any loss once this measure is implemented.

(2) At this income level, taxpayers do not benefit from any tax assistance because their income is not taxable.

2.3.2 An additional $83 million in tax assistance for experienced workers

The changes made with regard to the tax credit for experienced workers will enable the affected taxpayers to benefit from an additional $83 million in tax assistance over time.

This measure will allow close to 130 000 workers to benefit from additional tax assistance of $638, on average, per year.

TABLE B.14

Financial impact of enhancement of tax credit for experienced workers
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Enhancement of tax credit for experienced workers	—	−27	−56	−84	−83

Increased labour supply

The enhancement of the tax credit for experienced workers will enable close to 130 000 workers to benefit from additional tax assistance, encouraging them to increase their labour supply.

By offering a more generous tax assistance for experienced workers, we expect that close to 17 000 people will be returning to the labour market.

Impact of enhancement of tax credit for experienced workers on labour supply

	Number of workers
Existing beneficiaries	130 000
New beneficiaries	16 800
TOTAL	**146 800**

A measure that meets needs

Tax assistance will persuade low-income, experienced workers to increase their labour supply. In fact, three out of four workers aged 63 and over have a total income of between $15 000 and $50 000.

This measure meets not only the needs of experienced workers by improving their financial situation but also those of employers who will benefit from a larger experienced workforce.

2.4 Adapting the tax credit with respect to age to the reality of seniors

Since 1972, Québec's tax regime has been granting individuals aged 65 and over a non-refundable tax credit with respect to age.

This tax credit was implemented in recognition of the fact that, as individuals get older, their expenses go up for goods and services connected with the loss of functional independence, in particular prescription drug and healthcare expenses. Seniors now benefit from:

- Québec's public prescription drug insurance plan, thereby decreasing their prescription drug expenses;
- a tax credit for home maintenance of seniors that offsets a portion of the expenses incurred to keep them at home, i.e., essentially, expenses connected with the loss of functional independence;
- a tax credit for medical expenses to reduce their health-related expenses such as paramedical and dental services.

However, since the tax credit came into force, Québec society has improved on several levels, particularly as regards the socio-economic situation and state of health of seniors.

It is, therefore, relevant to review the age of eligibility for this tax credit in order to take such changes into account, as recommended by the Québec Taxation Review Committee.

Reminder of tax credit with respect to age

The $2 460 tax credit with respect to age for the 2015 taxation year is added to the retirement income amount and the person living alone amount.

The total of these amounts is then reduced on the basis of family income at a rate of 15% for each dollar exceeding the reduction threshold, which will be $33 145 in 2015.

The reduced result is converted, at a rate of 20%, to a tax credit that may be split between the spouses. The maximum assistance for 2015 will be $492.

☐ A society that has changed

The state of health of seniors has improved greatly over the past few decades. In this regard, we have seen a major increase in life expectancy and in the number of years of functional independence.

On the one hand, between 1976 and 2011, life expectancy went up from 77 to 84 for women and from 69 to 80 for men. Technological improvements in healthcare and the trend toward an increasingly active society are enabling people to live longer in good health.

On the other hand, the economic situation of seniors has improved significantly since 1976. In fact, the real median income of people aged 65 and over has increased by more than 40%.

Also, several tax measures aimed at seniors have been implemented over the years, offering them great financial support when it comes to healthcare expenses. For example:

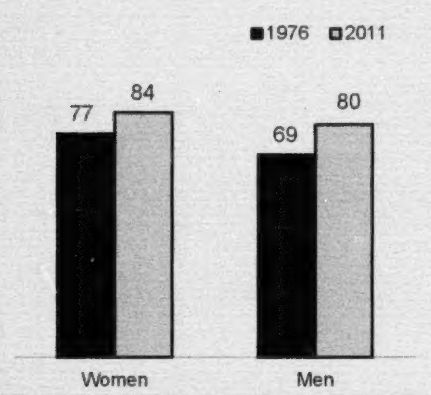
— individuals aged 65 and over who receive 94% or more of the federal government's Guaranteed Income Supplement benefit from Québec's free public prescription drug insurance plan;

— the tax credit for home maintenance of seniors offsets a portion of the expenses incurred by seniors aged 70 and over who are receiving home support services, i.e., essentially, expenses for services connected with the loss of functional independence.

GRAPH B.3

Changes in life expectancy at birth in Québec – 1976 and 2011

(years)

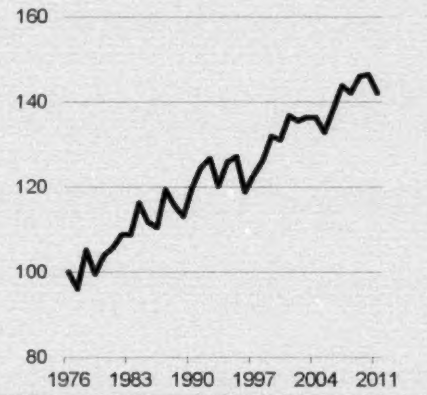


Source: Canadian Human Mortality Database.

GRAPH B.4

Changes in real median income of people aged 65+ in Québec – 1976 to 2011

(index, base 100 in 1976)



Source: Statistics Canada, Table 202-0404.

2.4.1 Gradual increase in eligibility age of the tax credit with respect to age

In order to adapt the tax credit with respect to age to the reality of seniors, tax assistance will be granted starting at an age at which seniors are more concerned about a loss of functional independence incurring additional expenses.

In this respect, Budget 2015-2016 includes a gradual increase in the eligibility age of the tax credit with respect to age from 65 to 70.

— The age of eligibility will be increased by one year every year starting in 2016, reaching age 70 in 2020. This increase will allow existing beneficiaries to continue to benefit from the tax credit after it is modified.

Over time, the eligibility age of the tax credit with respect to age will be harmonized to that of the refundable tax credit for home maintenance of seniors. This modification will take place without anyone losing the tax assistance to which they are already entitled.

TABLE B.15

Increase in eligibility age of the tax credit with respect to age
(years)

	Current 2015	Gradual increase				
		2016	2017	2018	2019	2020
Eligibility age of tax credit with respect to age	65	66	67	68	69	70

Recommendation of the Québec Taxation Review Committee

In its report, the Québec Taxation Review Committee considers that the use of an age criteria to offer tax relief, regardless of the financial capability of the taxpayers concerned, does not seem justified.

In this regard, the Committee proposes to gradually increase the age of eligibility for certain tax expenditures from 65 to 75, in particular the tax credit with respect to age.

It is proposed to increase the eligibility age by one year every year to reach age 75, so that those who are currently eligible remain so.

❑ Better-targeted tax assistance for seniors

With the improvement in the living conditions of the elderly and the new programs aimed at better supporting the costs associated with ageing, seniors are becoming more and more active in the labour market and are living independently longer.

Over time, revising the eligibility age of the tax credit with respect to age will allow the government to free up a total of $77 million, which will be used entirely to finance the enhancement of the work incentive for experienced workers aged 63 and over.

TABLE B.16

Financial impact of gradual increase in eligibility age of the tax credit with respect to age
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Gradual increase in eligibility age of the tax credit with respect to age	—	18	38	57	77

3. TAX RELIEF FOR CORPORATIONS

The Québec Taxation Review Committee made public its report on March 19, 2015. In this report, the Committee recommends that the government make significant changes to the corporate tax system.

Budget 2015-2016 outlines the government's policy directions with respect to business taxation and takes measures to increase the effectiveness of the corporate tax system.

❑ The recommendations of the Québec Taxation Review Committee

In the Budget Speech of June 4, 2014, the government announced the creation of the Québec Taxation Review Committee for the purpose of obtaining expert advice on how to increase the effectiveness, fairness and competitiveness of Québec's tax system while ensuring the financing of public services.

In particular, this committee was mandated to exam Québec's corporate taxation system to:

- identify measures for reducing tax expenditures pertaining to businesses in order to meet the targets set in Budget 2014-2015;
- review the corporate tax system in order to propose ways of better supporting economic growth.

The tightening of tax assistance for businesses announced in recent months will make a substantial contribution to restoring fiscal balance in 2015-2016.

■ Recommendations leading to a significant reform of the corporate tax system

In its report, the Committee makes a series of recommendations to the government that would lead to a significant reform of Québec's corporate tax system.

In concrete terms, the Committee recommends a reduction in the corporate tax burden of about $1.6 billion that would be entirely financed by adjustments to fiscal measures pertaining to businesses and to methods of taxation.

■ A tax system that favours growth and investment

The Committee believes that an overall reduction in the corporate tax burden would promote investment more than the fiscal measures targeted by the current system. Thus, a reduction in taxation financed by adjustments to certain tax expenditures from which businesses benefit would:

- reduce the tax burden imposed on the vast majority of businesses;
- decrease distortions in economic decisions, thereby improving the allocation of resources and stimulating growth;
- simplify the tax system.

❑ The government's policy directions with respect to corporate taxation

Budget 2015-2016 plans to improve the effectiveness of the corporate tax system in order to provide businesses in all regions of Québec with a fiscal environment favourable to investment and job creation.

The government also recognizes that it is entrepreneurs who are in the best position to identify growth opportunities for their business.

Accordingly, with respect to making the corporate tax system more competitive, the Committee recommends, at term:

— a general reduction of the tax rate to 10%;

— a reduction in the Health Services Fund contribution to 1.6% for SMBs.

As a first step, the government plans to gradually reinvest the sums generated from the tightening of tax assistance for businesses announced in recent months in reducing the overall tax burden of businesses.

These measures will help reduce the tax burden of businesses, while also providing them with a tax system that is more effective and stimulates investment.

The government will continue its efforts to reduce the tax burden as resources generated by the acceleration in economic growth become available.

■ A stable corporate tax system

By announcing its long-term policy directions for corporate taxation, the government is signalling, to Québec businesses, its intention to provide them with a stable and predictable tax system.

Moreover, the government is now seeking to start a dialogue about the most effective ways in which to foster growth and investment in Québec businesses.

☐ Measures based on the government's financial capacity

To act on this important initiative, Budget 2015-2016 includes many measures on corporate taxation that are aimed at:

- reducing the tax burden of SMBs;
- making taxation more favourable to investment;
- ensuring the effectiveness of sectoral tax assistance;
- supporting the activities of tax-advantaged funds.

These actions will be financed in part by adjustments to certain tax expenditures. In total, these represent a reduction in the tax burden of $216 million per year at term for Québec businesses.

By focusing on general application measures, the government is making sure that as many Québec businesses as possible benefit from a competitive tax system and take full advantage of business opportunities.

TABLE B.17

Financial impact of measures to reduce the corporate tax burden
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Reducing the tax burden of SMBs	—	−0.2	−2.8	−13.7	−14.7	−31.4
Making taxation more favourable to investment	—	−6.6	−8.0	−43.0	−125.5	−183.1
Ensuring the effectiveness of sectoral tax assistance	−4.6	−57.2	−69.2	−72.4	−75.5	−278.9
Supporting the activities of tax-advantaged funds	−6.3	−4.5	—	—	—	−10.8
TOTAL	**−10.9**	**−68.5**	**−80.0**	**−129.1**	**−215.7**	**−504.2**

Changes made to the corporate tax system since Budget 2014-2015

Changes to improve the effectiveness of the corporate tax system

The government has focused on general application measures in order to ensure that as many businesses as possible benefit from a competitive tax system and take full advantage of growth opportunities.

Accordingly, in Budget 2014-2015 and in the *Update on Québec's Economic and Financial Situation* of fall 2014, the government implemented a number of measures to achieve this aim:

- a holiday from the Health Services Fund (HSF) contribution to promote the hiring of specialized workers, which will reduce the tax burden of SMBs by $56 million in 2019-2020;
- a reduction in the HSF contribution for SMBs in the primary and manufacturing sectors, which will reduce the tax burden of SMBs by $81 million in 2019-2020.

In Budget 2015-2016, the government is continuing its efforts to improve the effectiveness of the corporate tax system by planning a reduction in the corporate tax burden that will reach a total of $216 million.

Overall, the various measures announced since Budget 2014-2015 will reduce the overall tax burden of businesses by $425 million per year in 2019-2020.

The government intends to continue its efforts to reduce the tax burden of businesses by using a portion of additional revenues generated from the growth in economic activity. Thus, the government will promote investment by re-investing, using general application measures, the reduction in tax assistance for businesses aimed at making the tax system more effective.

Businesses will contribute to restoring fiscal balance

In order to put public finances in order, the government has tightened its tax assistance for businesses.

In total, the changes announced will enable the government to free up $192 million in 2014-2015 and $664 million in 2015-2016, which will contribute in a substantial way to restoring fiscal balance in 2015-2016.

Changes made to the corporate tax system since Budget 2014-2015 (cont.)

Financial impact of fiscal measures pertaining to businesses announced since Budget 2014-2015
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Measures aimed at improving the tax system						
Budget 2014-2015						
– Holiday from the HSF contribution to promote the hiring of specialized workers	−7	−20	−33	−44	−50	−56
– General reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMBs	−13	−34	−36	−37	−38	−39
– Other tax relief measures	−3	−10	−11	−12	−13	−13
Subtotal	**−24**	**−64**	**−79**	**−93**	**−101**	**−109**
Fall 2014 Update						
– Reduction in the HSF contribution for SMBs in the primary and manufacturing sectors	−17	−71	−74	−76	−79	−81
– Other tax relief measures	−0	−15	−17	−18	−19	−20
Subtotal	**−18**	**−86**	**−91**	**−94**	**−98**	**−101**
Budget 2015-2016						
– General reduction of the tax rate for businesses	—	—	−7	−36	−83	−122
– Reduction in the tax burden of SMBs	—	—	−0	−3	−14	−15
– Other tax relief measures	—	−11	−62	−41	−32	−79
Subtotal	**—**	**−11**	**−69**	**−80**	**−129**	**−216**
Subtotal – Improvement	**−41**	**−161**	**−239**	**−267**	**−327**	**−425**
Tightening of tax assistance						
Budget 2014-2015	104	348	496	515	481	396
Fall 2014 Update	88	316	394	298	301	297
Subtotal – Tightening	**192**	**664**	**890**	**813**	**782**	**693**
TOTAL	**151**	**503**	**651**	**546**	**454**	**267**

Note: Since the figures have been rounded, they might not add up to the indicated total.

3.1 Reducing the tax burden of SMBs

SMBs are the main engine driving growth in Québec's economy. They make up 99% of all businesses in Québec and generate two-thirds of all jobs.

Recognizing their importance for the Québec economy, the government seeks to provide SMBs in all regions with a competitive tax system that fosters growth, investment and job creation.

To this end, Budget 2015-2016 includes two measures aimed at reducing the tax burden of SMBs, effective January 1, 2017:

- a reduction in the tax rate from 8% to 4% for SMBs in the primary sector;
- a gradual reduction in the Health Services Fund (HSF) contribution from 2.7% to 2.25% for SMBs in the service sector.

These tax relief measures for SMBs will be financed in part by an adjustment to the Small Business Deduction (SBD). Beginning January 1, 2017, this deduction will only be granted to SMBs that meet the objectives of this deduction, primarily in terms of investment and job creation.

With these changes to the corporate tax system, Québec's SMBs will increase their profitability and be more competitive in export markets, thereby fostering their expansion and the hiring of new workers.

TABLE B.18

Financial impact of measures aimed at reducing the tax burden of SMBs
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Reduction in the tax rate from 8% to 4% for SMBs in the primary sector	—	−2.4	−22.6	−27.8	−28.3	−81.1
Gradual reduction in the HSF contribution from 2.7% to 2.25% for the service sector	—	−14.7	−125.3	−187.8	−193.9	−521.7
Refocusing the SBD on SMBs that create new jobs	—	16.9	145.1	201.9	207.5	571.4
TOTAL	—	**−0.2**	**−2.8**	**−13.7**	**−14.7**	**−31.4**

Improvements totalling $210 million to the basic tax system for SMBs

Fostering the growth of SMBs through general application measures

By favouring general application measures to stimulate investment, the government seeks to provide Québec SMBs with a fiscal environment that enables them to grow, innovate and be competitive.

Since Budget 2014-2015, the government has acted to make numerous improvements to the tax system by reducing specific assistance measures that benefit a small number of businesses and implementing general application measures. In its report, the Québec Taxation Review Committee also recommends this policy direction.

Thus, the government is:

- reducing the Health Services Fund (HSF) contribution for SMBs in all sectors of the economy, which will be financed in part by adjustments to the Small Business Deduction (SBD);
- implementing a holiday from the HSF contribution for the hiring of specialized workers in SMBs;
- reducing the tax rate from 8% to 4% for SMBs in the primary and manufacturing sectors;
- introducing an additional deduction for transportation costs of manufacturing SMBs.

These measures to improve the basic tax system for SMBs will represent $210 million per year at term.

Impact of general application measures for SMBs implemented since Budget 2014-2015
(millions of dollars)

	Annual amount at term
Reduction in the HSF contribution for SMBs in all sectors	275
Refocusing the SBD on SMBs that create jobs	−208
Subtotal	**67**
Holiday from the HSF contribution for the hiring of specialized workers in SMBs	56
Reduction in the tax rate for SMBs in the manufacturing sector	39
Reduction in the tax rate for SMBs in the primary sector	28
Additional deduction for transportation costs of manufacturing SMBs	20
TOTAL	**210**

3.1.1 Income tax rate for SMBs in the primary sector reduced from 8% to 4%

Effective January 1, 2017, Budget 2015-2016 provides for a reduction from 8% to 4% in the income tax rate for primary sector SMBs.

SMBs that will benefit from this reduced tax rate will be those that are currently eligible for the reduced tax rate for SMBs and operate mainly in the agricultural, forestry, mining or fishing sectors.

This initiative will allow primary sector SMBs to benefit from the same tax rate as those in the manufacturing sector.

Over 6 500 primary sector SMBs will benefit from an annual reduction of up to $20 000 in their income taxes. This will increase the cash available to these businesses and allow them to take advantage of the economic recovery to finance new investments. It will also encourage the hiring of new workers.

☐ Annual tax burden for SMBs reduced by over $25 million

This measure will be particularly beneficial for this sector's exporting SMBs, as it will improve their ability to compete outside of Québec.

The easing of the tax burden will mainly benefit agricultural and forestry businesses facing strong competition, especially from companies in Ontario.

This initiative will lighten the tax load for these SMBs by more than $25 million per year.

TABLE B.19

Financial impact of reducing the tax rate for primary sector SMBs from 8% to 4%
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax rate reduced from 8% to 4% for primary sector SMBs	—	−2.4	−22.6	−27.8	−28.3	−81.1

Illustration of how the Québec tax system improves the ability of agricultural businesses to compete

For a small agricultural business that declares a taxable income of $500 000 and a payroll of $1 million, the reduction in its tax rate and the decrease in Health Services Fund (HSF) contributions from 2.7% to 1.6%, announced in the *Update on Québec's Economic and Financial Situation* in the fall of 2014, will reduce its tax burden to a level similar to that of Ontario.

Starting in 2017, the tax burden for this business will be $2 775 more than its Ontario equivalent, whereas the difference was $33 775 before January 1, 2015.

- This means that the difference in the tax burden between an agricultural SMB in Québec and in Ontario will have been reduced by more than 90%.

Illustration of the tax burden for an agricultural SMB in Québec and in Ontario
(dollars, unless otherwise stated)

		Tax burden in Québec	
	Tax burden in Ontario	**Before January 1, 2015**	**As of January 1, 2017**
Corporate income tax			
Taxable income	500 000	500 000	500 000
Tax rate	4.5%	8%	4%
Income tax payable	*22 500*	*40 000*	*20 000*
HSF contribution			
Payroll	1 000 000	1 000 000	1 000 000
Contribution rate	1.95%	2.7%	1.6%
Exemption threshold	450 000	—	—
Contribution payable(1)	*10 725*	*27 000*	*16 000*
TOTAL TAX BURDEN	**33 225**	**67 000**	**36 000**
Difference in relation to Ontario	—	33 775	2 775

(1) Excluding the effect of corporate income tax deductions.

3.1.2 Gradual reduction of the Health Services Fund contribution rate from 2.7% to 2.25% for the service sector

In the fall 2014 *Update on Québec's Economic and Financial Situation*, the government announced a reduction in the Health Services Fund (HSF) contribution rate for SMBs in the primary and manufacturing sectors from 2.7% to 1.6%. This reduction took effect on January 1, 2015.

The Québec Taxation Review Committee recommends extending this reduction in the HSF contribution to all sectors.

Thus, in order for all SMBs to benefit from a reduction in payroll tax, Budget 2015-2016 provides for a gradual reduction in the HSF contribution rate as of January 1, 2017 for all SMBs in the service and construction sectors with a payroll of less than $5 million.

SMBs with a total payroll of $1 million or less will see their contribution rate gradually decrease, from 2.7% to 2.25%:

- 2.55% on January 1, 2017;
- 2.40% on January 1, 2018;
- 2.25% on January 1, 2019.

When fully implemented, SMBs with a payroll greater than $1 million, but less than $5 million, will be subject to a contribution rate that increases linearly from 2.25% to 4.26%.

❑ A measure that will benefit more than 210 000 SMBs

More than 210 000 SMBs will benefit from a tax reduction that will amount to almost $200 million when fully implemented. This will help improve the ability of these SMBs to compete and therefore encourage job creation in all regions of Québec.

TABLE B.20

Financial impact of the gradual reduction of HSF contribution rate from 2.7% to 2.25% in the service sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Gradual reduction in HSF contribution in the service sector	—	−14.7	−125.3	−187.8	−193.9	−521.7

Reduction in the Health Services Fund contribution for all Québec SMBs

As of January 1, 2017, a reduction in Health Services Fund (HSF) contribution rate will reduce the tax burden on all businesses in the service and construction sectors with a payroll of less than $5 million.

- Effective January 1, 2019, the HSF contribution for an SMB with a payroll of $1 million will decrease by $4 500, for savings of 17%.

Illustration of the impact of the reduction of HSF contribution rate for SMBs in the service and construction sectors
(dollars, unless otherwise stated)

	HSF contribution rate		HSF contribution payable		
Payroll	Current situation	As of January 1, 2019	Current situation	As of January 1, 2019	Savings
1 000 000	2.70%	2.25%	27 000	22 500	4 500
2 000 000	3.09%	2.75%	61 800	55 000	6 800
3 000 000	3.48%	3.26%	104 400	97 800	6 600
4 000 000	3.87%	3.76%	154 800	150 400	4 400
5 000 000	4.26%	4.26%	213 000	213 000	0

A more competitive payroll tax system for all SMBs

In addition to this HSF contribution rate reduction, the government has announced two tax relief measures for SMBs since Budget 2014-2015, as follows:

- the reduction in HSF contribution for manufacturing and primary sector SMBs payroll effective January 1, 2015;
- an HSF contribution holiday to encourage SMBs to hire skilled workers for innovative projects starting June 5, 2014.

Québec SMBs in all economic sectors will benefit from a reduction in HSF contributions compared with the situation before Budget 2014-2015, thereby making the Québec tax system more competitive.

- To illustrate, an SMB with a $1 million payroll will benefit from a reduction of 17% to 41% in its HSF contribution rate, depending on the sector, while also benefiting from a full contribution holiday for the hiring of skilled workers.

Illustration of the impact of HSF contribution rate relief measures for a SMB with a payroll of $1 million
(per cent)

	Rate before Budget 2014-2015	Rate effective January 1, 2019	Difference as a percentage
Service and construction and sectors	2.7	2.25	−17
Primary and manufacturing sectors	2.7	1.6	−41
Hiring a skilled worker	2.7	0.0	−100

❑ A measure to encourage job creation

HSF contribution are a fixed expense which SMBs must pay, which can become an obstacle to job creation.

— Although small businesses benefit from a lower rate, the tax burden on payroll in proportion to sales is greater for SMBs than for large companies.

By reducing SMBs' HSF contribution, the government will both encourage quality job creation and improve the ability of Québec businesses to compete.

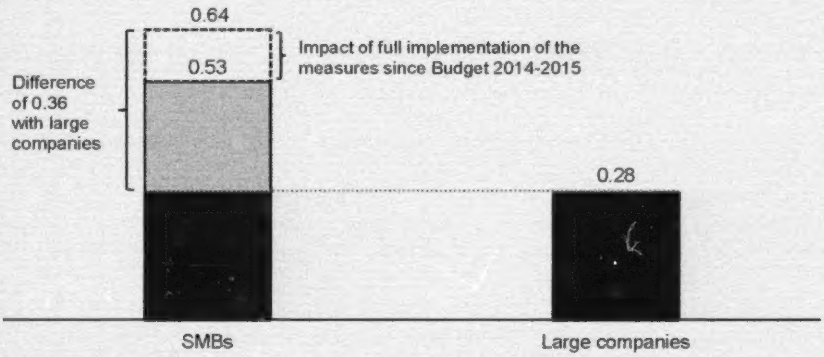
Health Services Fund contribution: a greater burden for SMBs than for large companies

Despite the lower rate for SMBs, the burden of Health Services Fund (HSF) contribution, as a percentage of sales in Québec, is more than twice as high for SMBs as for large companies.

- HSF contribution represented 0.64% of SMB sales figures in Québec in 2011, versus 0.28% for large companies.

Measures implemented by the government since Budget 2014-2015 to lower payroll taxes for all Québec SMBs will reduce this difference by nearly one-third compared to larger companies.

HSF contribution in proportion to sales figures in Québec[1]
(per cent, difference expressed as a percentage change)



(1) Estimates based on 2011 tax statistics.

3.1.3 Refocusing the small businesses deduction for job-creating SMBs

Due to their size, SMBs sometimes have more difficulty financing their growth than large companies. The Québec corporate tax system thus provides a lower income tax rate for SMBs, the small business deduction (SBD).

☐ The small business deduction: designed to promote growth

The purpose of the SBD is to free up cash for SMBs by reducing their tax burden, so they can invest more easily in their growth and create jobs.

However, a number of companies that benefit from this tax measure do not meet the objective of the SBD. These companies have a small and stable number of employees and need little investment to generate revenue.

Therefore, as recommended by the Québec Taxation Review Committee, Budget 2015-2016 provides for an adjustment to the SBD so that it can better fulfill its original purpose, which is to support SMBs that invest and create jobs.

Therefore, starting January 1, 2017, construction and service sector businesses with three employees or less will no longer be eligible for this preferential tax measure.

☐ An adjustment to reduce the payroll tax for 210 000 SMBs

For targeted companies, all taxable income will now be taxed at the general corporate tax rate, which is currently 11.9%, rather than 8% on the first $500 000 of revenue and 11.9% on the remainder. This adjustment to the SBD will affect about 75 000 companies in the construction and service sectors, of which 42 000 have no employees.

The money freed up will go toward financing the reduction in the HSF contribution rate for over 210 000 companies working in these sectors.

TABLE B.21

Financial impact of measures to reduce the tax burden of SMBs
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Reduce the tax burden of SMBs[1]	—	−17.1	−147.9	−215.6	−222.2	−602.8
Refocus the small business deduction	—	16.9	145.1	201.9	207.5	571.4
TOTAL	—	**−0.2**	**−2.8**	**−13.7**	**−14.7**	**−31.4**

(1) Measures to reduce the tax burden for SMBs are presented in sections 3.1.1 and 3.1.2.

Québec Taxation Review Committee recommendation

The adjustment to the small business deduction (SBD) is based on the recommendation of the Québec Taxation Review Committee.

The Committee recommends that the government implement a "growth premium" for SMBs to replace the current SBD. The Committee's recommendation is to restrict SBD eligibility to companies with at least five employees.

The purpose of the new premium would be to encourage small businesses to grow in order to benefit from favourable tax treatment.

Furthermore, the Committee also recommends a reduction in the Health Services Fund contribution rate to 1.6% for all SMBs.

3.2 Making taxation more favourable to investment

Québec needs to create an environment that is conducive to investment for all businesses.

In this regard, the Québec Taxation Review Committee believes that reducing the tax burden for a large number of businesses will encourage investment more than implementing targeted tax measures that only benefit a small number of businesses.

Thus, based on this recommendation and with a view to fostering investment growth, as of January 1, 2017 Budget 2015-2016 will:

- gradually reduce the general corporate tax rate from 11.9% to 11.5%;
- reduce the investment tax credit rate for manufacturing and processing equipment.

Reducing the general corporate tax rate will benefit over 90 000 companies in every sector, compared to the 4 000 companies who currently benefit from the investment tax credit.

However, the government recognizes that businesses located outside major urban centres face specific challenges, such as higher transportation costs.

Budget 2015-2016 thus provides for the continuation and extension of the investment tax credit, which was scheduled to terminate on December 31, 2017, for regions outside urban centres.

Ultimately, such measures will represent corporate tax cuts of over $125 million annually.

TABLE B.22

Financial impact of tax measures to make taxation more favourable to investment
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Gradually reducing the general corporate tax rate from 11.9% to 11.5%	—	−6.6	−36.0	−83.0	−122.3	−247.9
Reducing the investment tax credit rate for manufacturing and processing equipment	—	—	28.0	45.5	16.1	89.6
Maintaining and extending the regional investment tax credit	—	—	—	−5.5	−19.3	−24.8
TOTAL	**—**	**−6.6**	**−8.0**	**−43.0**	**−125.5**	**−183.1**

3.2.1 Gradual reduction of the general corporate tax rate from 11.9% to 11.5%

As of January 1, 2017, the general corporate tax rate will be reduced by 0.1 percentage point annually until January 1, 2020, when it reaches 11.5%.

This gradual reduction will put Québec's general corporate tax rate on par with Ontario's.

Québec's economy stands to reap the benefits of improved tax competitiveness. These benefits include:

— improving investment profitability, thus encouraging companies to invest more;

— attracting foreign companies to Québec.

Furthermore, the government wishes to further improve the competitiveness of Québec's corporate tax system going forward.

— Based on the work of the Committee, the government plans to continue reducing the general corporate tax rate by using a portion of the additional income derived from accelerated economic growth.

TABLE B.23

Changes to the general corporate tax rate
(per cent)

	2015	2016	2017	2018	2019	2020
General corporate tax rate	11.9	11.9	11.8	11.7	11.6	11.5

☐ Over $120 million per year to foster investment by Québec companies

Given the cuts to the general tax rate, the corporate tax burden will eventually be reduced by more than $120 million per year.

This initiative will lower taxes for 90 000 companies in all industry sectors and every region of Québec.

— The cash thus generated can be reinvested, promoting the growth of these companies.

TABLE B.24

Financial impact of gradually reducing the general corporate tax rate from 11.9% to 11.5%
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Gradual reduction of the general corporate tax rate from 11.9% to 11.5%	—	−6.6	−36.0	−83.0	−122.3	−247.9

☐ A reduction that will boost Québec's tax competitiveness in relation to Ontario's

Reducing the general tax rate to 11.5% will mean that Québec's businesses are taxed at the same rate as Ontario's; businesses in Ontario are their main competitors, due primarily to geographic proximity.

— In addition, only two provinces – Alberta and British Columbia – will have a corporate income tax rate lower than that of Québec.

TABLE B.25

Statutory rate for corporate income tax – General rate
(per cent)

	2015
Alberta	10.0
British Columbia	11.0
Québec – As of January 1, 2020	**11.5**
Ontario	11.5
Québec – Current	**11.9**
Manitoba	12.0
Saskatchewan	12.0
New Brunswick	12.0
Newfoundland and Labrador	14.0
Nova Scotia	16.0
Prince Edward Island	16.0
Federal	15.0
Canadian average[1]	**12.7**

(1) Canadian average excluding Québec and the federal government.

Additional measure to make Québec's corporate income tax system more competitive

In compliance with the agreement on harmonization of sales taxes, as of 2018 the government will gradually phase out restrictions on the rebate of QST paid on business inputs for firms whose annual taxable sales exceed $10 million.

Brief summary of the sales tax harmonization agreement

In March 2012, the Québec and federal governments came to an agreement regarding GST/QST harmonization.

Taking its lead from Ontario, the Québec government agreed to gradually phase out the restrictions on rebates of the QST paid by medium and large businesses on certain goods and services acquired as part of their operations. The phase-out period will extend over three years starting January 1, 2018.

- The rebate of the QST paid on business inputs is a basic principle of value-added taxes.

In 2019-2020, the elimination of restrictions on QST rebates will represent $515 million.

Financial impact of phasing out restrictions on QST rebates(1)
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Phasing out restrictions on the rebate of QST paid on business inputs for medium and large companies	—	—	−55	−275	−515

(1) Already accounted for in the government's financial balances.

3.2.2 Reducing the investment tax credit rates applicable to manufacturing and processing equipment

Since 2008, the Québec government has made a tax credit for investments in manufacturing and processing equipment available across Québec. The application of this tax credit is scheduled to terminate on December 31, 2017.

In keeping with the recommendations of the Québec Taxation Review Committee, Budget 2015-2016 provides the following:

- As of January 1, 2017, reducing by 4 percentage points the investment tax credit rate applicable to large businesses operating in the central regions;
- As of January 1, 2017, reducing by 8 percentage points the increased rates for SMBs.

The resulting proceeds will represent $90 million over five years, and will partially fund the reduction in the general corporate tax rate.

The revision of tax credit rates, in conjunction with the reduced general corporate tax rate, is a measure that aims to offer all Québec businesses a more efficient and more neutral tax system for their investment decisions.

Recommendation of the Québec Taxation Review Committee

The Committee recommends reducing the general corporate income tax rate from 11.9% to 10%.

According to the Committee, the lower rate would improve Québec's tax competitiveness and benefit economic growth. It would also enhance investment profitability, thereby enabling businesses to invest more extensively in their growth. It would also attract foreign companies to Québec.

In exchange, the Committee recommends the immediate elimination of the investment tax credit applicable to central regions and the complete elimination of the tax credit in 2018 for all of Québec.

It also recommends that rates for intermediate and remote zones also be reduced.

TABLE B.26

Investment tax credit rate for manufacturing and processing equipment, by region and company size

(per cent)

	Rate based on paid-up capital			
	Before January 1, 2017		After January 1, 2017	
	$250 million or less	$500 million or more	$250 million or less	$500 million or more
Central regions				
Capitale-Nationale, Estrie, Montréal, Outaouais, Chaudière-Appalaches, Laval, Lanaudière, Laurentides, Montérégie and Centre-du-Québec	8	4	—	—
Resource regions				
Intermediate zone				
Western Bas-Saint-Laurent, Mauricie, Saguenay–Lac-Saint-Jean and Antoine-Labelle, Pontiac and Vallée-de-la-Gatineau RCMs	16	4	8	4
Eastern Bas-Saint-Laurent: La Matanie, La Mitis and La Matapédia RCMs	24	4	16	4
Remote zone				
Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine	32	4	24	4

Note: Eligible corporations cannot benefit from a higher rate and the refundability of the investment tax credit, for a taxation year only inasmuch as their eligible expenses do not exceed a cumulative cap of $75 million over 3 years. The increase in the tax credit rate declines linearly for paid-up capital, so calculated, between $250 million and $500 million.

3.2.3 Maintaining and extending the regional investment tax credit

To reiterate its support for regional economic development and promote business growth in Québec's non-urban areas, Budget 2015-2016 provides for the continuation and extension of the investment tax credit for manufacturing and processing equipment in the regions. This measure will remain in place for a five-year period, i.e. up to December 31, 2022.

— This income credit was scheduled to terminate on December 31, 2017.

With this measure, the government recognizes that businesses located outside of major urban centres face particular challenges.

— Such businesses must deal with higher production and project financing costs due to their geographic location. Moreover, they generally have more difficulty recruiting and attracting a skilled workforce.

Extending this tax credit will support the manufacturing sector outside of the major urban centres, which in turn will benefit job creation and diversify the regional economic structure.

— Combined with the additional deduction for manufacturing SMB transport costs introduced in Budget 2014-2015, this will allow regional companies to be more competitive in external markets.

TABLE B.27

Financial impact of maintaining and extending the regional investment tax credit
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Maintaining and extending the investment tax credit for manufacturing and processing equipment in the regions to December 31, 2022	—	—	—	−5.5	−19.3	−24.8

3.3 Ensuring the effectiveness of sector-based tax assistance

The government is offering businesses various tax incentives such as tax credits in order to encourage the development of certain sectors or activities deemed strategic for Québec's economy.

Given the importance of this tax assistance in Québec, examining its relevance and effectiveness has been a major focus of the Québec Taxation Review Committee.

The recommendations in the Committee's report serve as the foundation for the government's adoption, as part of Budget 2015-2016, measures to make tax assistance more effective for companies in the new economy, culture and finance sectors.

In the coming years, the government is committed to creating these businesses a stable and predictable tax environment as a means of fostering investment and thus contributing to economic growth.

For the government, the financial impact of measures to ensure effective sector-based tax assistance for companies will amount to $4.6 million in 2015-2016 and $57.2 million in 2016-2017.

TABLE B.28

Financial impact of measures aimed at ensuring the effectiveness of sector-based tax assistance
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Review of tax credits destined for the new economy	−3.4	−42.0	−49.9	−52.7	−55.5	−203.5
Increase in tax credit rates for the Québec cultural sector	−2.1	−17.2	−21.6	−22.0	−22.4	−85.3
Limitation to the refundability of the tax credit for international financial centres	0.9	2.0	2.3	2.3	2.4	9.9
TOTAL	**−4.6**	**−57.2**	**−69.2**	**−72.4**	**−75.5**	**−278.9**

In the work of the Committee, a number of studies and briefs reported on the tax revenues generated by various sector-based tax assistance initiatives. The table below, taken from the Committee's report, summarizes these evaluations.

TABLE B.29

Tax assistance for businesses – Summary of studies evaluating tax benefits[1]

Tax assistance	Author[2]	Benefits	Cost/benefit ratio[3]	Scope of analysis
New economy				
E-business development	E&B Data	Direct and indirect	1.39	Eligible jobs
	Montréal International	Direct, indirect, induced and incidental taxation	1.82	Eligible jobs
	TechnoMontréal	Direct, indirect, induced and incidental taxation	1.89	Eligible jobs
	Ministère des Finances	Direct and indirect	1.16	Eligible jobs
Multimedia titles	KPMG	Direct, indirect and induced (partial)	1.07	Jobs – Video games
	E&B Data	Direct and indirect	1.41	Jobs – Video games
	Ministère des Finances	Direct and indirect	1.01	Eligible jobs
Culture				
Québec film or television production	AQPM[4]	Direct, indirect and incidental taxation	0.58	Eligible jobs
	Technicolor	Direct, indirect and incidental taxation	1.90	Technicolor – post-production activities
Film production services	PwC[4]	Direct, indirect and induced	0.61	Special and visual effects contracts
	Technicolor	Direct, indirect and incidental taxation	0.54	Technicolor – Visual effects
	Ministère des Finances	Direct and indirect	0.36	Filming activities
Sound recording and show production	ADISQ[4]	Direct, indirect and incidental taxation	2.84[5]	Total operating expenses
Film dubbing	ANDP[4]	Direct and induced (partial)	1.65	Eligible jobs
	Technicolor	Direct, indirect and incidental taxation	2.75	Technicolor – Dubbing
Finance				
International financial centres	KPMG	Direct (personal tax only), indirect and induced	0.58	Eligible jobs

(1) The studies conducted do not take into account the 20% reduction in tax credit rates announced in Budget 2014-2015.

(2) Evaluations by E&B Data were carried out as part of a study mandated by the Committee. The other evaluations were presented as part of briefs that were submitted to the Committee.

(3) The ratio corresponds to tax benefits generated for the Québec government for each tax credit dollar paid out to businesses.

(4) Association québécoise de la production médiatique (AQPM), PricewaterhouseCoopers (PwC), Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ) and Association nationale des doubleurs professionnels (ANDP).

(5) The ratio was determined based on tax benefits and the total amount of Québec public assistance (taxation and budgetary) estimated by the organization.

Tightening of tax assistance to businesses

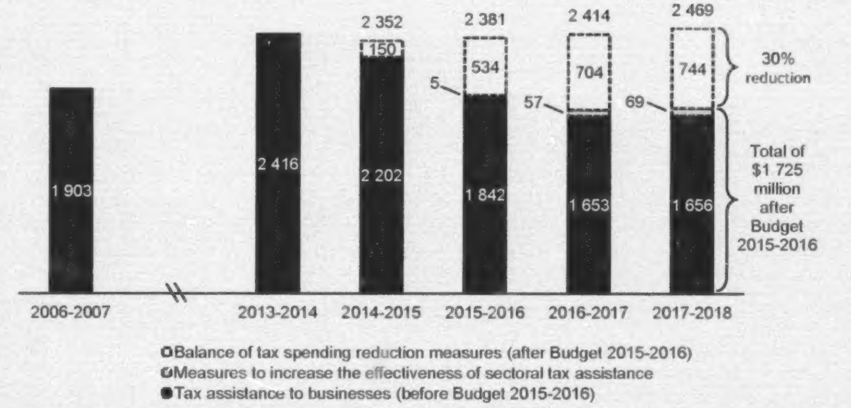
The financial impact of increases to sectoral tax assistance granted in Budget 2015-2016 will be $69 million in 2017-2018.

Even with these initiatives, the tightening of sectoral tax assistance to businesses will reduce tax expenditures for corporations to $744 million in 2017-2018.

Tax assistance will therefore stand at about $1.7 billion in 2017-2018, a reduction of 30% in relation to the $2.5 billion projected in the absence of these measures.

The measures to ensure the effectiveness of sectoral tax assistance therefore do not call into question the efforts to optimize tax spending to help balance the budget.

Impact of tax assistance measures for businesses(1)
(millions of dollars)



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(1) The tightening of tax spending was announced in Budget 2014-2015 and as part of the *Update on Québec's Economic and Financial Situation* in fall 2014. The total financial impact of these measures is represented by the dotted lines.

3.3.1 Review of tax credits for the new economy

Over the years, the government has contributed to the development of businesses and the creation of high-value-added jobs in certain sectors of the new economy in Québec, in part by creating an attractive fiscal environment.

These sectors are subject to intense fiscal competition from other states that are competing to attract foreign investment projects that will generate high-quality jobs. This global competition creates a risk that these activities will be offshored.

This is why the Québec Taxation Review Committee believes that a 20% reduction in the tax credit for the production of multimedia titles could compromise the development of Québec's video game industry.

Furthermore, the Committee has determined that this tax credit and the tax credit for the development of e-business generate tax spinoffs for the government that are greater than the cost of the tax assistance granted.

In order to maintain the competitiveness of companies in growth and strategic sectors for the Québec economy, Budget 2015-2016 will revise these two tax credits for the new economy.

This revision includes increasing tax assistance rates and making adjustments to better target government aid, which will increase the effectiveness of the tax credits, while maintaining the tax spinoffs.

The cost of these changes for the government will be $3.4 million in 2015-2016 and $42.0 million in 2016-2017.

TABLE B.30

Financial impact of measures to revise the tax credits for the new economy
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**Total**
Tax credit for the production of multimedia titles	−0.6	−30.0	−35.3	−37.3	−39.2	−142.4
Tax credit for the development of e-business	−2.8	−12.0	−14.6	−15.4	−16.3	−61.1
TOTAL	**−3.4**	**−42.0**	**−49.9**	**−52.7**	**−55.5**	**−203.5**

☐ Tax credit for the production of multimedia titles

Since 2007, the global video game industry has shown sustained growth in the order of 7% per year, and forecasts suggest that it will continue its growth in the coming years.[4] With skilled, dynamic labour and competitive tax assistance, Québec has been able to benefit from the economic spinoffs of this sector's development.

The result is that the video game industry in Québec now has a work force of almost 8 800 people at some 100 companies, making it the leader in Canada and a frontrunner in the world.

- Ontario also has around 100 companies that employ some 1 800 people, whereas British Columbia has almost 70 companies with close to 5 200 employees.[5]
- Canada ranks third in terms of the number of jobs in the industry, behind the United States and Japan. The level of employment in Québec is similar to that in the United Kingdom.

In addition to offering promising prospects for growth, the video game industry is a high-value-added sector that can make a significant contribution to the economy.

There is increasingly intense foreign competition to attract companies to their territory to produce original, innovative multimedia titles.

The Québec Taxation Review Committee was able to assess this fierce fiscal competition between states and to evaluate the importance of the tax credit for the development of the video game industry in Québec.

Budget 2015-2016 provides for the following changes to the tax credit for the production of multimedia titles:

- an increase in the maximum rate for the tax credit from 30% to 37.5%;[6]
- the introduction of a fiscal assistance cap of up to $37 500 per job, which will help control the increase in cost of this measure.

However, to acknowledge the strategic nature of certain jobs and the international competition to attract them, in particular game designers, creative and artistic directors and programmers, up to 20% of eligible jobs will not be subject to the fiscal assistance cap.

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[4] PwC, *Global Entertainment and Media Outlook*, 2012-2016.

[5] ENTERTAINMENT SOFTWARE ASSOCIATION OF CANADA, *2014 Essential Facts about the Canadian Video Game Industry*.

[6] More specifically, the base rates of 24% for titles intended for commercialization and 21% for other titles, including professional development titles, are increased respectively to 30% and 26.25%. The French premium will increase from 6% to 7.5%, which will bring the maximum tax credit rate to 37.5%.

These initiatives will make the tax credit more effective and create a more competitive business environment, while ensuring sufficient tax benefits for the government and profitability for the industry.

The cost of these changes for the government will be $600 000 in 2015-2016 and $30 million in 2016-2017.

Study of the tax credit for the production of multimedia titles

As part of the Québec Taxation Review Committee's task, E&B Data was mandated to conduct a study on tax assistance for the new economy.[1]

The mandate covered two tax measures: the tax credit for the production of multimedia titles and the tax credit for the development of e-business.

This study looked at the value of these measures, their profitability for public finances and their cost-effectiveness.

The study found that the tax spinoffs of the tax credit for the production of multimedia titles is greater than the cost to the government.

- In fact, for every dollar in tax assistance granted through the tax credit, the government receives tax spinoffs of $1.41.

These results are also supported by other studies presented in briefs submitted to the Committee, including the KPMG study that was part of the Alliance numérique brief.[2]

[1] E&B Data, *Revue des programmes de crédits d'impôt à la Nouvelle Économie*, January 2015.

[2] Alliance numérique, *Perpétuons le miracle québécois: l'avenir de l'industrie du jeu vidéo au Québec*, October 2014.

❑ Tax credit for the development of e-business

The development of the information technology sector fosters the creation and maintenance of well-paid, high-value-added jobs in Québec. Competition between states to attract private investment to this sector is also particularly intense.

The tax credit for the development of e-business is a major advantage in the cost structure of companies in Québec, in a sector where there is a high risk of activities being offshored.

— Today, around 370 companies benefit from tax assistance for close to 22 000 eligible employees in Québec.

— This tax measure is also intended to increase business productivity by stimulating the supply of value-added software that has a direct impact on improving business and work processes and on innovation.

In addition to being in a highly competitive industry, these companies need to negotiate medium- and long-term contracts that require a stable, predictable business environment.

To maintain and reinforce support for companies in Québec's information technology industry and concentrate tax assistance on the activities most sensitive to international competition, Budget 2015-2016 provides for the following changes with respect to the tax credit for the development of e-business:

— a 6 percentage points non-refundable increase in the tax credit and, where applicable, a $25 000 cap on tax assistance per job;

— the exclusion of payroll costs for corporate contracts with Québec government departments, agencies and corporations;

— cancellation of the tax credit deadline.

The per-job tax assistance cap controls the growth in the cost of this measure.

The cost of these changes for the government will be $2.8 million in 2015-2016 and $12.0 million in 2016-2017.

- ## Increase in the tax credit rate

With this increase, a company that declares sufficient taxable income could benefit from a tax credit of 30%, i.e., 24% in a refundable tax credit and 6% in a non-refundable tax credit.[7]

- ## Exclusion of government contracts

The tax credit currently applies to eligible salaries in companies that develop e-business, including those that carry out contracts for a government agency. It does not seem effective, however, for the tax credit apply to activities done for the Québec government or its agencies.

Furthermore, since these contracts are generally awarded to firms that operate in Québec, the tax assistance is granted for the jobs least likely to be relocated outside the province.

Study of the tax credit for the development of e-business

The study conducted by E&B Data[1] for the Québec Taxation Review Committee's examination of the profitability of tax assistance for the new economy shows that the tax credit for the development of e-business generates tax spinoffs that are higher than the cost of the assistance granted by the government.

- In fact, for every dollar in tax assistance granted through this tax credit, the government receives tax spinoffs of $1.39.

These results are also supported by other studies presented in briefs submitted to the Committee, including those of TechnoMontréal[2] and Montréal International.[3]

1 E&B Data, *Revue des programmes de crédits d'impôt à la Nouvelle Économie*, January 2015.
2 TechnoMontréal, *Pour innover et bâtir un Québec numérique et prospère - Conjuguer innovation, mesures fiscales et développement économique*, October 2014.
3 Montréal International, *Métropole: des secteurs clés pour une croissance accélérée*, October 2014.

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[7] The amount of the tax credit related to this increase will reduce or eliminate the amount paid in Québec income tax. The unused portion of the tax credit for a given tax year can be carried backward for three years and forward for 20 years.

3.3.2 Increase in tax credit rates for Québec's cultural sector

During the 2014-2015 Budget Speech, the government announced a 20% reduction in the rates of a number of tax credits, including those for cultural companies.

As part of the Québec Taxation Review Committee's task, the impact of this reduction was the subject of many briefs, which shed light on the challenges facing Québec's cultural enterprises, including those created by the advent of digital technology.

In addition to fostering economy development through job creation, tax credits for companies in this sector reinforce Québec's cultural identity, develop and promote Québec's cultural offer abroad and ensure access to culture for the entire population of Québec. The government analyzed the effectiveness of the tax credits in culture based on these specific criteria.

To help achieve these objectives, Budget 2015-2016 calls for adjustments to the tax assistance for culture which, based on the Committee's analyses, will provide an appropriate level of profitability so that companies can create quality artistic productions in Québec and promote them abroad.

The financial impact of these changes for the government will be $2.1 million in 2015-2016 and $17.2 million in 2016-2017.

TABLE B.31

Financial impact of increasing tax credit rates for the Québec cultural sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax credit for Québec film and television production	−1.1	−11.2	−13.4	−13.7	−13.9	−53.3
Tax credit for film dubbing	−0.1	−0.6	−0.7	−0.7	−0.7	−2.8
Tax credit for the production of shows	−0.4	−2.9	−3.5	−3.6	−3.6	−14.0
Tax credit for the production of sound recordings	−0.1	−0.2	−0.3	−0.3	−0.3	−1.2
Tax credit for book publishing	−0.3	−1.6	−1.8	−1.8	−1.9	−7.4
Tax credit for the production of multimedia environments or events staged outside Québec	−0.1	−0.7	−1.9	−1.9	−2.0	−6.6
Tax credit for film production services	—	—	—	—	—	—
TOTAL	**−2.1**	**−17.2**	**−21.6**	**−22.0**	**−22.4**	**−85.3**

Study of the tax credits for the cultural sector

As part of the work of the Québec Taxation Review Committee, KPMG[1] was given a mandate to analyze the tax assistance for firms operating in Québec's cultural sector.

The study examined six tax credits that apply to the following sectors:

- Québec film or television production, film production services and dubbing activities;
- production of shows, sound recordings and book publishing.

Each tax credit was the object of a specific analysis and conclusions. The study also led to the following observations concerning the overall tax assistance for cultural activities:

- the assistance has increased considerably in recent years; between 2009 and 2014, tax assistance increased an average of 7% per year;
- the stability and predictability of tax credits are essential for the success of the businesses in the cultural sector;
- tax credits are effective tools for promoting Québec's cultural assets.

All in all, according to the study, tax assistance has a major impact on the benefits enjoyed by businesses in the sector for business development and content development. For certain projects, specifically in the performance and sound recording industries, the level of tax credits is often a decisive factor in the determination of the profitability threshold.

[1] KPMG, *Analyse des mesures fiscales destinées aux entreprises du secteur culturel*, November 2014.

❑ Tax credit for Québec film or television production

Since it was implemented, the tax credit for film or television production has served to support quality Québec productions that are appreciated by the people of Québec.

Made-in-Québec audiovisual production requires increasing financial contributions, however, in order to compete with the numerous foreign productions that are so easily disseminated by new technologies.

In order to support Québec producers, Budget 2015-2016 provides for an increase in the tax credit rates, which vary by production category.

Budget 2015-2016 calls for the tax credit rate to increase from 36% to 40% for certain original Québec productions. These productions, which entail higher risks, allow for the development of Québec intellectual property that fosters the renown of our artists abroad.

The tax credit will increase from 28% to 32% for all other original Québec productions.

As for productions resulting from a format developed abroad, the applicable rates will remain at 28% and 36%, depending on the production category.

Moreover, eligible co-productions, produced in collaboration with a foreign producer, are recognized as original Québec productions and will continue to be entitled to the most advantageous rates.

The cost to the government of this adjustment in the tax credit represents $1.1 million in 2015-2016 and $11.2 million in 2016-2017.

TABLE B.32

Tax credit for film or television production – The day following the day of the 2015-2016 Budget Speech
(per cent)

	Basic rate		Increase for special effects and computer animation	Regional increase	Increase without public financing(1)	Maximum rate(2)
	Original production	Foreign format				
Production in French or giant format(3)	40	36	—	8	8	56
Other production	32	28	8	16	8	56

(1) This increase applies to a Québec film or television production that is a full-length fiction film or a unique documentary that has received no financial assistance from a public organization.

(2) When part or all of the labour expense is eligible for more than one bonus, the total cannot exceed 56%, except in the case of foreign formats, for which the maximum rate is 52%.

(3) This rate applies to certain long, medium and short productions, certain children's programs and certain documentaries, when they are in French. The same applies to giant format films, regardless of the language.

Tax credit for film dubbing

The film dubbing industry in Québec provides work and income for numerous artists and professionals. Competitiveness is, however, very strong in this sector, in which Québec competes with the francophone countries.

The competition comes mainly from France, given the size of its market and its legislation concerning film and TV series producers, which requires them to dub their works in France before distributing them.

Moreover, new players such as Belgium, Spain, Italy and Morocco have entered the dubbing market with service offers in French that are very competitive.

In addition to these challenges in terms of competition, new trends in digital distribution also mean that it is possible to make products available online almost immediately, particularly when it comes to television series. As a result, producers are increasing the pressures on the dubbing industry to quickly obtain versions that have been translated into French in order to make them available shortly after the original version is released.

Given the increased foreign competition and the fragility of Québec's dubbing industry, Budget 2015-2016 provides for an increase from 28% to 35% in the rate of the tax credit for dubbing films, that is, a return to the level in effect before Budget 2014-2015.

Our language is one of the foundations of our identity. It is important for the dubbing industry to give the people of Québec access to quality dubbed versions produced in their local language.

The cost of this increase for the government will be $100 000 in 2015-2016 and $600 000 in 2016-2017.

Tax credit for the production of shows

The government supports the entertainment industry in Québec by granting a tax credit for various types of productions: musical, dramatic, comedy, mime, magic, circus, aquatic and ice shows.

This is a niche with many benefits for cultural organizations in Québec. Some productions involve a variety of performing arts trades and increased use of new technologies for lighting and special effects. The tax credit also provides support for a diversified cultural offer in the regions.

Since the number of performances from outside Québec is increasing, it is important for Québec performers to be able to produce shows with more ambitious budgets so that they can compete with foreign promoters.

In order to maintain the competitiveness of the entertainment industry, Budget 2015-2016 will:

- increase the tax credit for the production of shows from 28% to 35%;
- increase the ceiling to $1.25 million when the eligible performance is a musical comedy and to $750 000 in other cases, except for a comedy performance.

Moreover, Budget 2015-2016 will reduce the tax credit ceiling to $350 000 when the eligible show is a comedy show. This will help adapt the tax credit to the usual cost structure for this type of production.

These actions represent a cost to the government of $400 000 in 2015-2016 and $2.9 million in 2016-2017.

☐ Tax credit for the production of sound recordings

The sound recording production industry in Québec is facing major challenges, particularly in the French-language song market. The limited size of the Québec market does not provide for sufficient economies of scale to offer sustainable profitability for music producers.

In recent years, with the development of new digital media, the global music industry has undergone major changes in terms of distribution. Given the coexistence of the physical and digital universes, the industry must continue to produce and market physical formats, while making massive investments to establish themselves in the digital market.

This additional financial pressure is particularly heavy for Québec sound recording producers.

Considering the importance of supporting the renown of Québec song and the fragility of the industry resulting from low profitability, Budget 2015-2016 will increase the rate of the tax credit for the production of sound recordings from 28% to 35%.

The cost of this measure for the government will be $100 000 in 2015-2016 and $200 000 in 2016-2017.

☐ Tax credit for book publishing

The development of digital technologies has resulted in numerous changes in the publishing industry, such as making it necessary for publishers to produce a paper and digital version of the same volume. Moreover, the e-book offer facilitates access to the Québec market for traditional foreign publishers.

Consequently, the publishing industry in Québec must bear the additional costs of digital publishing and simultaneously deal with greater competition from the large francophone publishers, which enjoy the benefits of a larger internal market.

In order to support the continuation of book publishing activities in Québec and sustain the associated jobs, Budget 2015-2016 provides for an increase from 28% to 35% in the tax credit rate for book publishing and an increase in the maximum tax credit to $437 500.

The cost of this measure for the government will be $300 000 in 2015-2016 and $1.6 million in 2016-2017.

❑ Tax credit for the production of multimedia environments or events staged outside Québec

Over the years, the multimedia industry has become a major economic draw, particularly in the Montréal and Québec City regions. Québec now has highly qualified human resources whose qualities and accomplishments are recognized internationally. The synergy between the numerous multimedia, computer animation and visual effects production companies and the teaching institutions has also resulted in an environment that is beneficial to the development of these industries.

Given this situation, the multimedia event and environment production niche offers great economic development potential for Québec and serves as a showcase for the dissemination of Québec creations abroad.

In order to support Québec artists and creators in the dissemination of their works on an international scale and generate more economic benefits for Québec in connection with these activities, the government offers a tax credit for the production of multimedia environments or events staged outside Québec.

This tax credit applies at a rate of 28% for an expense incurred before January 1, 2016. The maximum amount that can be claimed is $280 000 per production.

Generally, the production of such activities combines video, lighting, architecture, sound and special effects and involves companies working in fields related to the multimedia industry that require well-trained and competent human resources.

- The producers of video games can benefit from a tax credit for the production of multimedia titles, and there is a premium for special effects and computer animation under the tax credit for film or television production services.

Therefore, in order to provide equal support to multimedia event or environment companies, Budget 2015-2016 also provides for:

- cancellation of the tax credit deadline;
- increase in the tax credit rate to 35%;
- increase in the tax credit ceiling to $350 000 per production.

These steps will accelerate the development of promising Québec companies that have succeeded on an international scale. The cost for the government will be $100 000 in 2015-2016 and $700 000 in 2016-2017.

❑ Tax credit for film production services

The tax credit for film production services was introduced to make Québec a preferred location for foreign film productions. For several years, many jurisdictions have been competing to attract these productions, which have large budgets.

The current tax credit rate for production services is 20%, and it applies to all eligible production expenses. A 16% premium is added for special effects and computer animation, applicable to labour expenditures incurred for this work.

Despite the reduction in the tax credit rate announced in June 2014, Québec's tax assistance remains competitive, specifically for attracting investment projects in the fields of computer animation and special effects.

The presence of this industry has a structuring impact for Québec. In addition to the development of special effects and computer animation expertise in Québec, the activities of foreign producers have also led to the development of leading-edge infrastructures. These modern infrastructures are also used for local productions, offering Québec producers optimal filming conditions.

In light of this, Budget 2015-2016 will maintain the tax credit for film production services at the current rates.

TABLE B.33

Tax credit for film production services – Comparison of rates

	Québec	Ontario	British Columbia
Provincial tax credit			
– Base rate	20%	25%	33%
Eligible expenses	*Labour and materials*	*Labour and materials*	*Labour*
– Premium for special effects and computer animation (labour only)$^{(1)}$	16%	20%	17.5%
– Effective rate$^{(2)}$	23.9%	28.4%	21.1%
Federal tax credit$^{(3)}$			
– Base rate (labour only)	16%	16%	16%
– Effective rate$^{(2)}$	5.0%	4.2%	5.4%
Effective rate (provincial and federal assistance)	**28.9%**	**32.6%**	**26.5%**

(1) In Québec, the special effects and computer animation premium applies to a broader set of expenses than in Ontario and British Columbia, where it applies solely to labour expenses.

(2) The effective rate is determined by dividing the tax assistance by the total production expenses based on a typical production budget, on the assumption that the production budget is made up as follows: approximately 75% for filming expenses (50% labour, 50% other expenses) and close to 25% for special effects (70% labour, 30% other expenses).

(3) The expenses that are eligible for a federal tax credit are deducted from the provincial tax assistance.

3.3.3 Limitation of the refundability of the tax credit for international financial centres

The government offers a refundable tax credit for international financial centres to support the development of activities in the financial sector. Since 1986, the government has offered financial assistance that supports companies in Montréal when all their activities involve international financial transactions. Over the years, this tax assistance has served to attract many companies to the metropolitan region.

- The tax credit, which is fully refundable, is applied at a rate of 24% to the salaries of eligible employees, up to a maximum of $16 000 per job.

In its report, the Québec Tax Review Committee analyzed the tax credit in its current form. This analysis confirmed that the financial impacts of this tax credit are insufficient to justify its continuation.

The low cost-effectiveness of the measures is principally due, however, to the support provided for activities related to client management. Although these are high-valued-added activities, the tax measure has had a limited impact on attracting new activities to Montréal in this field. On the other hand, the tax credit has been more effective with respect to attracting financial management or back-office activities that would not have settled in the metropolitan region without financial assistance.

In light of the benefits generated by the government support to promote the financial management or back-office activities of international financial centres, the government is maintaining the current tax credit parameters for these activities.

The government also wants to continue supporting client management activities, given their high degree of value-added and their structuring effect on Québec's financial sector. To ensure sufficient benefits in return for the assistance granted, however, in Budget 2015-2016, the tax credit for these activities will no longer be refundable.[8]

Limiting the refundability of the tax credit for international financial centres will lead to government savings of $900 000 in 2015-2016 and $2 million in 2016-2017.

TABLE B.34

Financial impact of the limitation of the refundability of the tax credit for international financial centres
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Limitation of the refundability of the tax credit for international financial centres	0.9	2.0	2.3	2.3	2.4	9.9

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[8] The amount of the non-refundable portion of the tax credit will reduce or eliminate the income tax to be paid to Québec. The unused portion of the tax credit may be carried back three years and forward twenty years.

Study of the Montréal financial hub and its international activities

As part of its analysis, the Ministère des Finances mandated KPMG to evaluate the changes in the Montréal financial hub, specifically with respect to the efforts dedicated to the development of its international activities.

To this end, the study identified the current activities of the financial sector and international finance in Montréal, examined the upgrading process for IFC Montréal's prospecting activities and evaluated the impact of the tax credit for international financial centres on its capacity to attract activities "not intended" for Québec.

The study concluded that the tax credit for international financial centres represents a net fiscal cost for the Québec government. The study also demonstrated that client management activities do not generate a sufficient return for the government. With respect to the financial management or back-office activities, however, the measure was deemed profitable, since each dollar invested by the government generates tax spinoffs of $1.58.

Source: KPMG, *Le pôle financier de Montréal et ses activités internationales*, September 2014.

3.3.4 Summary of changes made to the sectoral tax credit rates

The table below presents the changes made, under Budget 2015-2016, to the tax credit rates for the new economy, culture and finance sectors.

TABLE B.35

Sectoral tax credits – The day following the day of the 2015-2016 Budget Speech

Tax credits	Before Budget 2015-2016	After Budget 2015-2016
New economy		
Production of multimedia titles		
– Titles intended for commercialization, other than titles for professional training(1)	30%	37.5%
– Other titles, including professional training titles	21%	26.25%
Development of e-business	24%	30%(2)
Culture		
Québec film or television production		
– French-language or giant format production(3)		
▪ Original production	36%	40%
▪ Foreign format	36%	36%
– Other productions(3)		
▪ Original production	28%	32%
▪ Foreign format	28%	28%
Film production services(4)	36%	36%
Film dubbing	28%	35%
Show production	28%	35%
Production of sound recordings	28%	35%
Book publishing	28% / 21.6%	35% / 27%
Production of multimedia environments or events staged presented outside Québec	28%	35%
Finance		
International financial centres	24%	24%(5)

(1) The base rate includes an increase in the French premium equal to 6% before Budget 2015-2016 and 7.5% the day following the day of the 2015-2016 Budget Speech.

(2) The tax assistance includes a refundable tax credit of 24% and a non-refundable tax credit of 6%.

(3) For an original production, the rate may reach 56% with the addition of the applicable premiums, instead of the 52% applicable before Budget 2015-2016. The maximum rate is still 52% for foreign formats.

(4) Including the 16% premium for special effects and computer animation.

(5) A limit has been placed on the refundability of the tax credit that applies to the salaries of employees involved in client management activities.

3.4 Support for tax-advantaged funds

Tax-advantaged funds play a major role in the economic development of Québec. They help finance Québec's SMBs in all sectors and promote the creation and maintenance of a high number of jobs in all regions of Québec.

Together, the tax-advantaged funds have net assets of close to $13 billion and invest more than $800 million each year in Québec firms.

Approximately 800 000 taxpayers own shares in tax-advantaged funds, including more than 700 000 who hold labour-sponsored shares in their retirement savings portfolios.

In Budget 2015-2016, the government maintains its support for the three tax-advantaged funds by giving them the means they need to continue to contribute to the economic development of Québec and encourage Quebecers to save. Thus, the government:

— confirms that the ceilings set on issuing shares in labour-sponsored funds for their 2014-2015 financial year will be removed as of 2015-2016 and that Capital régional et coopératif Desjardins (CRCD) will be permitted to issue shares worth $150 million in 2015;

— announces an increase, from 15% to 20%, in the tax credit rate for Fondaction for its 2015-2016 financial year.

Moreover, the Québec government will continue to support the labour-sponsored funds in their efforts to have the federal government re-establish the tax assistance they used to receive.

Gradual elimination of the federal tax credit for labour-sponsored funds

In its Budget 2013, the federal government announced the abolition of the tax credit for labour-sponsored funds. The rate, which had been 15%, was decreased to 10% in 2015 and will be decreased to 5% in 2016. The tax credit will be completely eliminated in 2017.

Thus, as of 2017, it is expected that only Québec will offer tax assistance for the purchase of shares in a Québec labour-sponsored fund.

In its report, the Québec Tax Review Committee highlighted the essential role played by the tax-advantaged funds in financing SMB investments. Acknowledging this contribution, the Québec government has re-affirmed its support for their activities.

In light of the widespread support for labour-sponsored funds and the studies confirming the positive economic benefits of their activities, the federal government should acknowledge their importance for Québec, as well as the role they play for Canada. It should, as a result, revise its position and, following Québec's example, renew its support for labour-sponsored funds.

In exchange, the government will ask the tax-advantaged funds to make a greater contribution to the economic development of Québec. As such, Budget 2015-2016 calls for:

- a gradual increase in the investment standard for the three tax-advantaged funds, from 60% to 65%;
- enhanced investments in the regions, through the Fonds de solidarité FTQ regional funds.

TABLE B.36

Financial impact of measures to support the activities of the tax-advantaged funds
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Increase from 15% to 20% in the tax credit rate for Fondaction for one year	−6.3	−4.5	—	—	—	−10.8
Gradual increase in the investment standard from 60% to 65% for the tax-advantaged funds	—	—	—	—	—	—
Enhanced investment in the regions	—	—	—	—	—	—
TOTAL	**−6.3**	**−4.5**	**—**	**—**	**—**	**−10.8**

3.4.1 Increase from 15% to 20% in the tax credit rate for Fondaction for one year

Since it started its activities in 1996, Fondaction has had a mission to contribute to the economic growth of Québec by maintaining and creating jobs through investments in companies, primarily SMBs, in all sectors of Québec's economy, with a view to sustainable development.

Fondaction also facilitates access to retirement savings for individuals by offering its shareholders/investors a return in addition to the tax benefits granted by the government.

In recent years, the rate of the tax credit for the purchase of Fondaction shares was increased from 15% to 25% in order to accelerate the growth of the fund. Achieving optimal size will allow Fondaction to increase its efficiency and maximize return for fund shareholders. It is currently expected that this increased credit will be discontinued on May 31, 2015.

To allow Fondaction to pursue its growth and its investment activities in Québec, Budget 2015-2016 sets the rate of the tax credit for the purchase of Fondaction shares at 20% for its 2015-2016 financial year, with no limitations on the number of shares issued.

This will give Fondaction the latitude needed to manage its investment portfolio in keeping with its needs and investment opportunities.

This initiative represents an additional incentive for investors of $6.3 million in 2015-2016 and $4.5 million in 2016-2017.

3.4.2 Increase in investments made by the tax-advantaged funds in Québec businesses, particularly in the regions

For over 30 years, the tax-advantaged funds have been contributing to the economic development of Québec. The support they provide is significant since, in recent years, they have invested more than $800 million per year in Québec businesses.

The tax-advantaged funds are active in all sectors of the economy, at all stages of business development and in all regions of Québec.

The Committee has determined that the tax-advantaged funds could contribute more to the financing of SMB investment projects. With this in mind, the government will change certain parameters concerning the conditions that apply to the tax-advantaged funds, in order to increase the capital made available to Québec businesses.

☐ Gradual increase in the investment standard for the tax-advantaged funds from 60% to 65%

The tax-advantaged funds receive government support through a tax credit on the purchase of shares in the funds. For the labour-sponsored funds, support is also granted by making these investments eligible for Registered Retirement Savings Plan.

In exchange for these tax benefits, the tax-advantaged funds must uphold an investment standard that requires them to invest at least 60% of their portfolio in Québec businesses, particularly SMBs. This standard is intended to ensure that the funds collected through government assistance are used as a financing tool that contributes to the growth of Québec entities.

In the case of CRCD, an additional regional requirement applies. A minimum of 35% of the investments that qualify for the 60% investment standard – representing 21% of its net assets – must be invested in companies located in the resource regions or in cooperatives.

Therefore, in order to ensure a sufficient level of investment to finance Québec businesses, Budget 2015-2016 will increase the investment standard for the tax-advantaged funds from 60% to 65%, at the rate of one percentage point per year for five years, as of the financial year starting the day following the day of 2015-2016 Budget Speech.

Moreover, for CRCD, the regional limit will remain at 35%, which means that the qualified investments will increase to 22.75% of its net assets instead of 21%.

This increase in the investment standard represents additional investments of approximately $650 million in Québec SMBs, including more than $200 million in the regions.

❑ Enhanced investment in the regions

In 1996, under an agreement between the Québec government and the Fonds de solidarité FTQ, sixteen regional funds were created, distributed throughout the regions of Québec, to offer businesses financial support and assistance that more closely reflected the economic realities of each region.

In recent years, these regional funds have collectively invested an average of $33 million each year in their regions. As at December 31, 2014, the sixteen funds owned total net assets of close to $400 million.

The Fonds de solidarité FTQ is preparing to re-organize its regional funds, in part to reduce their management expenses and further concentrate its efforts on the development of SMBs in the regions. Moreover, the maximum threshold for investments in the SMBs will be increased from $2 million to $3 million. This re-organization will allow the regional funds to increase their SMB investment objectives to $45 million per year.

The Fonds de solidarité FTQ is committed to maintaining the activities of its regional funds for a period of at least ten years, until March 2026.

The government supports the Fonds de solidarité FTQ in this undertaking, due to the significant positive impact that reorganizing the regional funds will have for the regional economic development of Québec.

4. FOLLOW-UP ON RECOMMENDATIONS OF THE QUÉBEC TAXATION REVIEW COMMITTEE

The Québec Taxation Review Committee released its report on March 19, 2015. The report was received favourably by the government and contains many recommendations applicable in the short, medium and long term regarding the personal income tax and corporate tax systems.

The purpose of the recommendations submitted to the government is to optimize the taxation system in order to:

- foster economic growth;
- accelerate job creation;
- raise the standard of living of Quebecers.

To improve the taxation system and its impact on economic growth, the government is introducing a number of measures in Budget 2015-2016 which follow up, in whole or in part, on 28 of the 71 recommendations of the Committee.

Nonetheless, the government shall continue to evaluate certain recommendations to ensure consensus is achieved on changes to the Québec taxation system and in order to implement the reform efficiently. The last overhaul of the Québec taxation system took place 20 years ago. This exercise warrants public debate. Therefore, in addition to the recommendations already taken into account in Budget 2015-2016, the government plans to analyze 41 other recommendations, 18 of which will be discussed with the federal government and the other provinces.

To analyze the recommendations of the Committee, the government:

- will organize discussions with groups and organizations that are representative of society and create a partner roundtable;
- will set up a task force Committee to initiate discussions with the federal government to examine the implementation of certain recommendations;
- propose that special consultations be held before the end of summer 2015.

The purpose of this work will be to analyze the reform proposed in the Committee's report in order to determine potential improvements to the taxation system, favouring broad-based measures to support economic growth and raise the standard of living of Québec households.

In all, the government will implement or analyze 97% of the Committee's recommendations.

Mandate of the Québec Taxation Review Committee

The establishment of a Committee tasked with analyzing the taxation system and proposing reforms was announced in the Premier's inaugural address at the opening of the 41st Legislature, and then confirmed in Budget 2014-2015 on June 4, 2014.

The June 11, 2014 decree officially created the Québec Taxation Review Committee and set out its mandate.

The mandate was defined in the following terms:

- examine all tax measures from the standpoint of their relevance and efficacy to identify measures that would reduce overall tax expenditures in order to meet the targets set in Budget 2014-2015;
- examine the Québec taxation system to enhance its efficiency, fairness and competitiveness and ensure funding for public services;
- compare international taxation trends, in particular with respect to the practices of neighbours such as the United States and the other Canadian provinces;
- examine the possibility of rethinking the balance between different modes of taxation;
- attentively review the business taxation system to propose avenues that will better support economic growth;
- analyze the personal income tax system, in particular to further encourage work and saving, and optimize user fees while ensuring fair redistribution of collective wealth through the maintenance of adequate support for the most disadvantaged;
- assess the possibility of taxing certain user fees in order to take into account the ability to pay of the users of public services, bearing in mind the impacts on implicit marginal taxation rates.

4.1 Follow-up on recommendations regarding the personal income tax system

The Québec Taxation Review Committee is proposing a major revision of the personal income tax system in order to encourage stronger economic growth, especially through more incentives to work. More particularly, the Committee recommends:

- the abolition of the progressive healthcare contribution;
- the implementation of a more progressive nine-rate tax table;
- the review of a number of tax expenditures, some of which would be eliminated or reviewed, and others reduced based on income;
- an increase in consumption taxes;
- a broader recourse to user fees.

Several of the Committee's recommendations are aimed at encouraging more Quebecers to enter and remain in the labour market. The government welcomes this stance.

Lowering the personal tax burden encourages people to participate in the labour force and fosters economic growth.

☐ Measures in Budget 2015-2016

Budget 2015-2016 introduces four measures in this regard, based on the work of the Committee:

- the abolition of the progressive healthcare contribution;
- the implementation of a tax shield;
- an increase in the tax credit for experienced workers;
- a gradual increase from 65 to 70 years of age for eligibility for the tax credit with respect to age.

☐ A review process to be continued

The measures regarding individuals included in Budget 2015-2016 constitute an initial response to the recommendations of the Québec Taxation Review Committee.

The government will continue to examine several other recommendations, particularly those aimed at reviewing a number of tax expenditures that would permit, on the one hand, better targeting of assistance and, on the other, increase the economic efficiency of tax support.

4.2 Follow-up on recommendations regarding corporate taxation

The Québec Taxation Review Committee believes that reducing the overall tax burden of corporations would be more beneficial for business investment and growth than implementing targeted tax measures.

It therefore recommends a reduction of $1.6 billion in the corporate tax burden, including:

- a reduction in the general corporate tax rate from 11.9% to 10%;
- a reduction in the Health Services Fund (HSF) contribution rate, from 2.7% to 1.6% for SMBs.

The Committee recommends financing these initiatives by reviewing a number of tax measures and by a broader reliance on user fees for corporations.

The government agrees with the general policies proposed by the Committee regarding the corporate tax system. It intends to follow up on the recommendations to reduce the tax burden of corporations as its financial situation permits.

To this end, Budget 2015-2016 introduces, in response to the Committee's recommendations, the first initiatives regarding the corporate taxation system and sector-based measures.

The government plans to continue improving the corporate taxation system to allow Québec companies to benefit from a tax environment that encourages corporate investment, growth and the hiring of qualified workers.

The measures in Budget 2015-2016 will help ensure stability in investment conditions going forward by fostering generally applicable measures that will be beneficial to a greater number of Québec corporations.

☐ Measures in Budget 2015-2016

In Budget 2015-2016, the government introduces several measures based on the recommendations of the Québec Taxation Review Committee regarding the corporate tax system. In particular, these initiatives include:

- gradually reducing contribution rate to the HSF for SMBs in the service sector from 2.7% to 2.25%;
- reducing the tax rate for primary sector companies from 8% to 4%;
- refocusing the small business deduction for job-creating SMBs;
- gradually reducing the general corporate income tax rate from 11.9% to 11.5%;
- reducing the rate of the tax credit on manufacturing and processing equipment;
- reviewing tax credits aimed at the new economy;
- expanding tax credits for Québec's cultural sector;
- supporting tax-advantaged funds;
- supporting the next generation of entrepreneurs.

■ Maintaining tax credit refundability

Following its examination of tax relief, the government did not accept the Committee's recommendation to make all tax credits non-refundable, in particular those for major corporations.

Thus, all tax credits remain refundable with the exception of specific adjustments as identified in Budget 2015-2016, regarding the tax credit for the development of e-business and the tax credit for international financial centres.

■ A stable and predictable tax system

The government is committed to gradually reinvest the funds obtained by reducing tax measures to corporations, as announced in recent months, in reducing the overall tax burden for corporations. In doing so, the government is acting on its commitment to offering Québec corporations a stable, predictable and competitive tax system.

This signal to Québec corporations, coupled with the return to a balanced budget, aims to create a stable and predictable economic environment, which will stimulate sustainable economic growth and job creation.

4.3 Consultations on the Committee's recommendations

The government plans to consult with its key partners on the recommendations of the Québec Taxation Review Committee. The objective of this consultation will be to determine the next steps to be implemented to improve the Québec tax system.

Furthermore, the Québec government would like to soon enter into talks with the federal government on various issues raised by the Committee that require a joint Canadian response. Québec will again play a leading role in the Canadian federation by proposing constructive solutions, particularly regarding issues associated with erosion of the tax base.

In this context, to continue analyzing the Committee's recommendations, Budget 2015-2016 includes the implementation of:

- a partner roundtable that will bring together key players in civil society to gain consensus on the evolution of the tax system;
- a working committee to launch discussions with the federal government and the other provinces.

4.3.1 Creation of a partner roundtable

To ensure consensus on future changes to the Québec tax system, the government announces that it will establish a partner roundtable.

The purpose of this forum will be to foster dialogue among the key players in civil society and the government regarding the Québec tax system.

Members will be asked to analyze the recommendations of the Québec Taxation Review Committee, particularly those regarding the personal taxation system.

The roundtable will be chaired by the Minister of Finance. The first meeting should take place by the end of June. Details regarding the makeup of the partner roundtable will be announced at a later date.

4.3.2 Creation of a working committee to launch talks with the federal government

The Québec Taxation Review Committee raised several taxation issues that demand joint responses from the provinces and the federal government.[9]

To begin a dialogue with the federal government, Budget 2015-2016 provides for the creation of a task force made up of representatives of the Ministère des Finances du Québec and Revenu Québec.

The mandate of this task force will be to analyze the Committee's recommendations in detail and start discussions with the federal government, particularly regarding:

- taxation of capital gains;
- preferential treatment accorded to stock options granted to employees;
- incentives to save money;
- collection of sales taxes and corporate income tax on Internet transactions made by suppliers in foreign countries;
- the fight against tax evasion, tax avoidance and aggressive tax planning schemes;
- use of trusts to shift the tax base outside Québec.

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[9] For more information about the recommendations of the Québec Taxation Review Committee that require joint action among the provinces and federal government, see recommendations 23, 24, 25, 26, 27, 28, 39, 47, 48, 53, 54, 56, 57, 58, 59, 60, 62, 63 and 69 presented in section 4.4 of this document.

4.4 Summary of recommendations of the Québec Taxation Review Committee

The table below summarizes the recommendations of the Committee as well as the associated government policies.

TABLE B.37

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016[1]	Under study	Not retained
FOSTER ECONOMIC GROWTH AND A HEIGHTENED STANDARD OF LIVING THROUGH MAJOR REFORM OF THE TAXATION SYSTEM IN THE SHORT, MEDIUM AND LONG TERM			
Recommendation 1 Undertake a major tax reform to foster economic growth and a higher standard of living: – In the short term, reduce personal income tax, corporate income tax and payroll tax through a reduction of tax expenditures and an adjustment of the methods of taxation. – In the medium term, undertake a review of the mode of taxing capital gains. – In the long term, examine the implementation of a dual income tax system.	√		
Reform proposed in the short term			
Recommendation 2 Adjust methods of taxation leading to a reduction in personal income tax, corporate income tax and payroll tax.	√		
Recommendation 3 Reduce personal income tax, corporate income tax and the payroll tax be funded first, through the revision of tax expenditures.	√		
Recommendation 4 Reduce personal income tax, corporate income tax and the payroll tax and avoid transferring the tax burden between corporations and individuals.	√		
Implementation of the proposed reform: personal taxation			
Recommendation 5 Eliminate the healthcare contribution.	√		
Recommendation 6 Increase the basic personal amount, i.e. the threshold income subject to taxation, to $18 000.		√	

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016(1)	Under study	Not retained
Recommendation 7 Reduce personal income tax and adopt a more progressive tax rate schedule.		√	
Recommendation 8 Ensure that the maximum marginal tax rate of the personal income tax rate schedule, including federal taxation, does not exceed 50%.	√		
Recommendation 9 Reduce personal income tax by revising tax expenditures, broader recourse to consumption taxes, and additional reliance on user fees.	√		
Recommendation 10 Increase the QST by 1.025 percentage points, from 9.975% to 11%.		√	
Recommendation 11 Harmonize the tax rate on insurance premiums with that of the QST and maintain the exemption for personal insurance premiums.		√	
Recommendation 12 Raise the rate of the specific tax on tobacco products in a predictable manner by $1 per year per carton for five years.		√	
Recommendation 13 Increase the tax on alcoholic beverages by an additional $0.078 per litre of beer each year for five years.		√	
Recommendation 14 Increase the fuel tax on gasoline and diesel by 1 cent per litre per year for five years.		√	
Recommendation 15 Increase and adjust the additional registration fee applied to luxury vehicles of more than $50 000.		√	
Recommendation 16 Enhance the solidarity tax credit in order to protect the most disadvantaged against the deterioration of their financial situation that may stem from the new tax mix.		√	
Introduction of the proposed reform: corporate tax			
Recommendation 17 Reduce the corporate income tax rate from 11.9% to 10%.	√		

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016(1)	Under study	Not retained
Recommendation 18 Introduce a "growth premium" for SMBs, which would replace the current small business deduction.	√		
Recommendation 19 Reduce the payroll tax rate for SMBs from 2.7% to 1.6%.	√		
Recommendation 20 Reduce the corporate tax by revising the tax expenditures from which businesses benefit, and by broader recourse to user fees.	√		
Recommendation 21 Eliminate the refundability of tax credits for large businesses.			√
Recommendation 22 Enhance certain tax measures for the cultural sector and examine the possibility of levying a tax on residential Internet services in order to support the cultural sector.	√		
Proposed medium-term reform			
Recommendation 23 Engage discussions with the provinces and the federal government about a revision of capital gains taxation.		√(2)	
Recommendation 24 Eliminate the partial inclusion of capital gains and replace it by the recognition of the real capital gain, in coordination with the other provinces and the federal government.		√(2)	
Recommendation 25 Maintain specific treatment of the capital gain on principal residences, but limit the exemption to a lifetime amount of $1 million in order to exclude gains from speculation.		√(2)	
Recommendation 26 Replace the existing lifetime capital gains exemption by an additional contribution to the registered retirement savings plan (RRSP) in coordination with the provinces and the federal government.		√(2)	
Recommendation 27 Abolish the preferential treatment accorded stock options granted to employees, in coordination with the provinces and the federal government.		√(2)	

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016[1]	Under study	Not retained
The proposed long-term reform			
Recommendation 28			
Examine the implementation of a dual income tax system, in coordination with the provinces and the federal government.		√(2)	
STIMULATE BUSINESS INVESTMENT			
Recommendation 29			
Enhance the tax credit for the production of multimedia titles and establish a ceiling on the tax credit of $25 000 per year per eligible job.	√		
Recommendation 30			
Maintain, as is, the tax credit for scientific research and experimental development, and introduce budget measures to support marketing by SMBs.	√		
Recommendation 31			
Maintain the tax credit for the development of e-business until December 31, 2025, but do not renew it thereafter.	√		
Recommendation 32			
Lift the moratorium on the tax credit for the integration of information and telecommunications technology in manufacturing SMBs.	√		
Recommendation 33			
Maintain the tax holiday for major industrial investment projects and examine its genuine impact and use before it is extended.	√		
Recommendation 34			
Immediately abolish the basic investment tax credit applicable to the central regions, adjust the rate for regions eligible for the enhanced rate, and completely abolish that tax credit in 2018.	√		
Recommendation 35			
Standardize, at 15%, the tax credit applicable to the purchase of shares in the Fonds de solidarité FTQ and Fondaction.		√	
Recommendation 36			
Reduce, from 45% to 25%, the rate of the tax credit applicable to purchases of CRCD shares.		√	
Recommendation 37			
Raise, from 60% to 70%, the minimal proportion of eligible investments that the three tax-advantaged funds must make in Québec SMBs, impose no ceiling on annual issues for the labour-sponsored funds, and abolish the capitalization ceiling on the CRCD.	√		

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016(1)	Under study	Not retained
Recommendation 38 Increase the minimum holding period for shares in the tax-advantaged funds.		√	
Recommendation 39 Contemplate the Committee's solutions concerning business transfers between persons dealing on a non-arm's length basis, and define the specific tax rules for transactions genuinely related to family business successions.	√(2)		
Recommendation 40 Eliminate the eligibility of farm property for the capital gains exemption once it is no longer used for agricultural purposes.		√	
Recommendation 41 Harmonize Québec's provisions with those in force elsewhere in Canada, in the absence of an agreement between all the provincial governments concerning the abolition of the preferential treatment accorded stock options granted to employees.		√	
ENCOURAGE LABOUR MARKET PARTICIPATION			
Recommendation 42 Establish a "tax shield" intended to reduce the implicit marginal tax rate tied to an annual increase in income.	√		
Recommendation 43 Replace the tax credit for experienced workers by a premium for experienced workers to be added to the work premium.	√		
Recommendation 44 Enhance the work premium.		√	
Recommendation 45 Increase the income thresholds at which the tax credt for child assistance becomes reducible according to income, and eliminate the universal portion of the credit.		√	
Recommendation 46 Do not harmonize Québec with the federal household income-splitting measure.	√		
ENCOURAGE PERSONAL SAVINGS			
Recommendation 47 Levy a penalty of up to 10% when funds are withdrawn from an RRSP before the age of 55, except under certain specific circumstances.		√(2)	
Recommendation 48 Engage in reflection with the federal government and the provinces to better match the RRSP and the TFSA and enhance the overall coherence of saving initiatives.		√(2)	

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016(1)	Under study	Not retained
ADHERE TO SUSTAINABLE DEVELOPMENT			
Recommendation 49 Increase, by 0.8 cent per kilowatt-hour over two years, the cost of Hydro-Québec heritage pool electricity, and continue to index it subsequently.		√	
Recommendation 50 Levy a 10% tax on overconsumption of average household electricity exceeding 80 kilowatt-hours per day.		√	
Recommendation 51 Better integrate eco-taxation and the application of the user pay principle or the polluter pays principle.		√	
COLLECT ALL TAX REVENUES			
The fight against tax evasion, tax avoidance and aggressive tax planning schemes			
Recommendation 52 Pursue the fight against tax evasion, tax avoidance and aggressive tax planning schemes.	√		
Recommendation 53 Step up discussions with the other provinces and the federal government in order to further promote collaboration between the different jurisdictions.		√(2)	
Recommendation 54 Clearly indicate our concern about the fight against tax evasion, tax avoidance and aggressive tax planning schemes at the international level and bring this matter to the attention of the federal government.		√(2)	
Recommendation 55 Ensure better follow-up to the processing of taxpayers' files during a Revenu Québec audit.		√	
The collection of sales tax and income tax pertaining to e-commerce			
Recommendation 56 Initiate discussions to obtain the federal government's consent to administer the registrations that would become compulsory under the QST regime for businesses located outside Québec that make supplies to Québec without maintaining a physical or significant presence in Québec.		√(2)	
Recommendation 57 Pressure the federal government to step up its efforts within the framework of the OECD's ongoing deliberations with respect to the collection of sales taxes on e-commerce transactions carried out with foreign countries.		√(2)	

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016(1)	Under study	Not retained
Recommendation 58 Assume leadership, among the Canadian provinces overall, with respect to the collection of e-commerce sales taxes.		√(2)	
Recommendation 59 Pressure the federal government to step up its efforts within the framework of the OECD's ongoing deliberations with respect to the collection of corporate income tax linked to e-commerce.		√(2)	
Better oversight of provisions respecting trusts			
Recommendation 60 Initiate discussions with the federal government and the provinces concerning the use of trusts to shift the tax base outside Québec.		√(2)	
Recommendation 61 Adopt provisions which stipulate that a trust is deemed to be a corporation and the beneficiaries are deemed to be the shareholders of the corporation for the purpose of interpreting the concepts of "non-arm's length relationships", "associated companies" and "related persons" when a trust is used within a corporate group.		√	
Recommendation 62 Initiate discussions with the federal government to amend the rules in force concerning income-splitting and, more specifically, the concept of split income.		√(2)	
Recommendation 63 Initiate discussions with the federal government to limit certain planning schemes concerning the lifetime capital gains exemption.		√(2)	
ADAPT TAXATION TO A CHANGING SOCIETY			
User fees for reduced-contribution childcare services			
Recommendation 64 Revise the method of funding reduced-contribution childcare services through the taxation of a single rate.			√
Sound management of tax expenditures			
Recommendation 65 Apply an arbitration mechanism, also called the "safety catch", to budgetary expenditures.	√		
Recommendation 66 Subject tax expenditures to periodic evaluation.	√		

TABLE B.37 (cont.)

Recommendations of the Québec Taxation Review Committee

	Budget 2015-2016[1]	Under study	Not retained
Recommendation 67 Integrate accountability respecting tax expenditures into the budget documents tabled in the National Assembly.	√		
Recommendation 68 Publish the list of corporations that obtain refundable tax credits beyond a certain threshold, as well as the amounts in question.		√	
Recommendation 69 Put interprovincial tax competition on the agenda of interprovincial or federal-provincial meetings.		√[2]	
ENSURE THE EQUITABLE REDISTRIBUTION OF COLLECTIVE WEALTH AND ADEQUATE SUPPORT FOR THE MOST DISADVANTAGED			
Recommendation 70 Enhance the parameters of the solidarity tax credit, i.e., the base amount, the spousal amount and the additional amount for a person living alone.		√	
Recommendation 71 Adopt the appropriate means to tackle the significant shortcomings identified recently with regard to the solidarity tax credit.	√		
FOLLOW-UP ON THE COMMITTEE'S RECOMMENDATIONS	**28**	**41**	**2**

(1) The government has introduced measures in Budget 2015-2016 that are based on the Committee's recommendations.

(2) Committee recommendations that require the provinces and the federal government to collaborate.

5. NEW INITIATIVES TO BOOST LABOUR MARKET PERFORMANCE

The aging of Québec's population has a direct impact on the available labour pool. This phenomenon is a serious issue, with potential effects on economic growth, Quebecers' standard of living and the functionality and efficiency of the labour market.

— It is estimated that by 2017, there could be as many as 725 000 open positions, and that this number could climb as high as 1.4 million by 2022.

Measures must therefore be taken immediately to improve the labour market's performance and ensure that Québec can count on a significantly large, qualified labour force to meet the needs of employers.

To this end, Budget 2015-2016 dedicates $166.1 million over five years with the purpose of:

— improving training-job alignment, to increase the percentage of the working population able to adequately meet the sectoral and regional labour force needs of businesses;

— increasing the number of available workers through improved labour market integration of immigrants.

TABLE B.38

Financial impact of new initiatives to boost labour market performance
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Improving the alignment between training and the needs of businesses	−20.1	−29.0	−25.4	−24.5	−24.6	−123.6
Increasing the contribution of immigrants to the labour market	−5.5	−8.5	−8.5	−10.0	−10.0	−42.5
TOTAL	**−25.6**	**−37.5**	**−33.9**	**−34.5**	**−34.6**	**−166.1**

5.1 Improving the alignment between training and the needs of businesses

The presence of both available workers and open positions in the labour market begs for a closer alignment of labour force competencies and training with the current and future needs of businesses.

- The sectors in which it is hard to fill open positions are primarily those where the jobs require qualifications acquired through vocational and technical training programs.

This imbalance is quite costly for Québec and prevents many people from actively contributing to the development of the economy. In these circumstances, it is critical to foster improved labour market performance by:

- providing workers with access to training that is better suited to the business world and that contributes more to improved business productivity;
- promoting internships as a fast track to independent employment for graduates;
- optimizing the participation of the available labour force.

☐ Initiatives of nearly $125 million to support training and employment over five years

Budget 2015-2016 includes measures targeting greater wealth through better alignment between training and jobs. Nearly $125 million will be dedicated to this goal over the next five years. More specifically:

- around 8 000 businesses will benefit from a significant easing of regulatory requirements, as the threshold for being subject to the *Act to Promote Workforce Skills Development and Recognition* (also known as the "1% law")[10] is increased from a total payroll of $1 million to a total payroll of $2 million;
  - at the same time, the government will ensure, in the coming years, that the level of funding for the Workforce Skills Development and Recognition Fund (WSDRF) is maintained;
- new amounts have been earmarked to meet the current and future training needs of businesses, in particular by giving a strategic role to the Commission des partenaires du marché du travail;
- certain training programs will be adapted to specifically emphasize workplace learning and the tax credit for on-the-job internships will be increased to encourage employers to hire interns more regularly;

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[10] Under the 1% law, all businesses with a total payroll in excess of $1 million must dedicate the equivalent of 1% of this payroll to training. Businesses that fail to meet this threshold (1%) must pay the difference to the WSDRF.

— the available workforce will be encouraged to participate more in the labour market, notably through the implementation of the new Objectif emploi program.

These investments will provide many workers with better career opportunities. Businesses, in turn, will have access to a workforce whose training is better suited to their needs.

The details of the initiatives to align training with the needs of businesses will be unveiled at a later date by the Minister of Labour, Employment and Social Solidarity.

TABLE B.39

Financial impact of initiatives to align training and the needs of businesses
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Easing the administrative burden on SMBs						
Increasing the threshold for the 1% law from $1 million to $2 million in total payroll	—	—	—	—	—	—
Meeting the training needs of businesses						
Adapting training to the needs of the labour market	−15.0	−15.0	−10.0	−10.0	−10.0	−60.0
Allocating scholarships in priority training areas	−2.0	−2.0	−2.0	−2.0	−2.0	−10.0
Favouring workplace internships						
Modifying training programs to include an on-the-job component	−0.6	−1.2	−2.0	−2.0	−2.0	−7.8
Increasing the tax credit for on-the-job internships, to promote a steady offer of workplace internships	−1.5	−4.8	−5.4	−5.5	−5.6	−22.8
New Objectif emploi program						
Implementing the new program, Objectif emploi	—	−5.0	−5.0	−5.0	−5.0	−20.0
Increasing the wage subsidy for the workplace learning program	−1.0	−1.0	−1.0	—	—	−3.0
TOTAL	**−20.1**	**−29.0**	**−25.4**	**−24.5**	**−24.6**	**−123.6**

5.1.1 Easing the administrative burden on SMBs

The primary objective of the Act to Promote Workforce Skills Development and Recognition (the 1% law) is to improve the qualifications of employed workers, in particular by having businesses invest in training.

Nearly 85% of all businesses subject to the 1% law fulfill their obligations, year after year. The others are obliged to pay a fee to the WSDRF.

— This fund was created under the 1% law. The amounts paid into the fund are mainly allocated to training measures supported by the Commission des partenaires du marché du travail (CPMT).

The obligations arising from this law constitute a significant administrative burden for businesses, and for SMBs in particular.

The costs assumed by businesses to comply with the 1% law significantly decrease the amounts ultimately available for training purposes.

— It is believed that only $0.50 of every dollar set aside by businesses to comply with the 1% law is in fact spent to support worker training.

☐ Increasing the threshold for the 1% law from $1 million to $2 million in total payroll

To ease the administrative burden of a significant number of SMBs, Budget 2015-2016 amends the *Act to Promote Workforce Skills Development and Recognition* so as to raise the total payroll threshold from $1 million to $2 million.

— Around 50% of the businesses currently subject to the law will then be exempt. This represents approximately 8 000 SMBs.

The exemption of these businesses will have the effect of reducing the amounts paid into the WSDRF by approximately $12 million annually.

The government undertakes to uphold and even supplement the investments dedicated to workforce training, in part by injecting new funds into the WSDRF.

— For this purpose, an envelope of $70 million will be allocated by 2019-2020, including $17 million in 2015-2016.

The CPMT, with its singular expertise in labour market needs, will be mandated to oversee the allocation of the new funds made available.

TABLE B.40

Contributions of private sector businesses to the Workforce Skills Development and Recognition Fund, based on total payroll – 2011

Amount of total payroll	Number of businesses	Contributions paid ($ million)
Between $1 million and $2 million	7 998	11.5
Between $2 million and $3 million	2 779	5.2
Between $3 million and $4 million	1 302	2.9
Between $4 million and $5 million	799	2.2
$5 million or more	2 563	14.4
TOTAL	**15 441**	**36.2**

Act to Promote Workforce Skills Development and Recognition: The cost of compliance for businesses

All regulations imply a cost of compliance for businesses. The costs borne by businesses to comply with the *Act to Promote Workforce Skills Development and Recognition* (the 1% law) have a significant impact on the amounts effectively dedicated to training.

In fact, only $0.50 of every dollar spent to ensure compliance with the 1% law is invested in workforce training.

Amounts dedicated to training by the Workforce Skills Development and Recognition Fund

(millions of dollars)

	2014
Amounts spent by businesses to comply with the 1% law	**52.6**
Cost of compliance for businesses	−15.0
Subtotal – Payments to the WSDRF[1]	**37.6**
Administrative costs to apply the Act	
- Application of the 1% law by the CPMT[2]	−4.5
- WSDRF operation and administration expenses incurred by the CPMT	−5.3
- Revenu Québec collection fees	−0.6
Subtotal – Administrative costs	−10.4
Amount dedicated to training	**27.2**

(1) Workforce Skills Development and Recognition Fund.
(2) Commission des partenaires du marché du travail.

5.1.2 Relying on the expertise of the Commission des partenaires du marché du travail to meet the training needs of businesses

Businesses must be able to count on training programs that are suited to their circumstances. They also expect there to be an adequate number of graduates to fill their workforce needs.

The training offer available to businesses must therefore be well-designed. The CPMT will be called on to play a leading role in this regard.

Its mandate will include defining the current and future workforce development needs, based on businesses' needs and labour market prospects.

To support the CPMT in this mandate and improve the training offer, Budget 2015-2016 includes an additional investment of $70 million over the next five years.

This new envelope will not only offset the decrease in the amounts paid by businesses into the WSDRF but also improve the training available to the workforce.

More specifically, this envelope will be used to:

- meet the training needs of businesses, particularly through short-term training offered by vocational and technical training centres;

- encourage the next generation of workers to study in areas with an insufficient workforce.

The new amounts will be allocated based on needs and on the joint recommendation of the Minister of Labour, Employment and Social Solidarity and the Minister of Finance.

- Each year, the CPMT will be required to submit an allocation plan for the funds made available to it and provide an accounting to the Minister of Labour, Employment and Social Solidarity and the Minister of Finance.

☐ $60 million over five years to adapt training to the needs of the labour market

The current and future workforce must have the tools required to meet the expectations of businesses and acquire the competencies sought in various labour market sectors. The training offer must therefore be flexible.

A total of $60 million over the next five years has been earmarked to adapt the training offer to the needs of the labour market.

- These sums will essentially be used to enable the various educational institutions recognized by the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche to offer training programs that are better suited to today's labour market, in particular short programs such as AEPs (Attestation of Vocational Studies) and AECs (Attestation of Collegial Studies) that entail internships.

To ensure the optimum use of the new funds made available, the training needs of the business workforce must be demonstrated to the CPMT, which may recommend prioritizing certain sectors, professions or regions when allocating financing for training purposes.

To this end, additional credits of $15 million in 2015-2016 and in 2016-2017, and of $10 million annually for the following three years, will be allocated to the Ministère du Travail, de l'Emploi et de la Solidarité sociale. The credits for 2015-2016 will come directly from the Contingency Fund.

The Commission des partenaires du marché du travail: more active in adapting manpower training to match employment

The Commission des partenaires du marché du travail (CPMT) unites representatives from business, labour, education, community and governmental organizations. Put simply, the CPMT represents the key players in the labour market. This group must therefore have the resources required to fulfil its strategic role, which is primarily to foster a better balance in the labour market.

The government will introduce a bill to review the mission of the CPMT, for the following purposes:

- assign the CPMT the mandate to define development needs for the workforce, in alignment with business needs and labour market outlooks;
- grant the CPMT the right to request that ministries and other official bodies be accountable regarding the amounts allocated to them to follow through on CPMT recommendations for meeting the needs of the labour market in terms of skills development and acquisition.

☐ Grant 1 000 scholarships each year for training in priority areas of activity

Certain areas of activity have significant workforce needs, and companies are dealing with a labour shortage. Consequently, students should be encouraged to orient themselves toward these priority areas.

In this context, $10 million will be allocated over the next five years for scholarships in the areas of activity determined by the CPMT.

- Around 1 000 students will receive scholarships each year.
- The scholarships will be granted when those students receive their diplomas.

The targeted training programs may be changed over time so that they continually reflect the needs of the labour market.

The required amounts will be paid to the WSDRF. As such, additional credits of $2 million will be allocated annually to the Ministère du Travail, de l'Emploi et de la Solidarité sociale for the next five years. The credits for 2015-2016 will come from the Contingency Fund.

☐ Additional investments to meet business training needs

Overall, the $70-million envelope forecast in Budget 2015-2016 will not only help offset the drop in the amounts paid by businesses to the WSDRF, but will also provide for $10 million in additional investments over five years to support training and thereby meet business needs.

- As of 2015-2016, additional investments of $5 million will be allocated to meet business training needs.

TABLE B.41

Additional investments to meet business training needs
(millions of dollars)

	2015-2016	Total over 5 years
Drop in the amounts paid by businesses to the WSDRF resulting from the increase of the threshold in the 1% law	−12.0	−60.0
Offsetting of the drop in the amounts paid to the WSDRF	12.0	60.0
Subtotal	—	—
Additional investments to meet business training needs	5.0	10.0
NET IMPACT	**5.0**	**10.0**

5.1.3 **Promote internships in the workplace**

There are many benefits to learning in a workplace setting:

- on one hand, students who secure an internship or undergo part of their training in a workplace setting are better prepared to meet business needs;
- on the other, sponsoring a student in a workplace setting can provide businesses with easier access to qualified candidates who meet their needs.

To further develop this approach, especially for vocational or technical training programs, Budget 2015-2016 allocates $30.6 million for initiatives over the next five years.

☐ Adapting certain training programs to include a workplace component

The issues related to adapting manpower training to match employment needs were mostly observed in the area of vocational and technical training. It is important to make sure that those people who are trained to work in certain trades can do so as quickly as possible.

Therefore, the possibility of including a job integration component during training should be exploited more.

With this in mind, some of the targeted training programs will be adapted so they provide students with the opportunity to acquire more practical skills.

Furthermore, to immediately rectify the labour shortage issue in the priority areas, pilot projects will be launched to increase workplace training.

- As of the 2015-2016 school year, two pilot projects for vocational training (in fitting/welding and technical machining) and two technical training programs (in plastics processing and mechanical engineering of aluminum) will be launched.
- In total, 10 new vocational and technical training programs will be adapted to enable students to acquire more practical workplace skills through internships.

To implement these initiatives, additional credits of $0.6 million in 2015-2016, $1.2 million in 2016-2017 and $2.0 million annually for the following three years will be allocated to the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche.

■ Increasing the offering of vocational and technical training internships

The vocational training offering comprises 150 programs of study. Nearly 80% of these programs include at least one skill tied to an internship.

However, internships account for a relatively small share of the total number of training hours.

— For example, for a program of study that totals 1 800 hours, the prescribed internship might account for up to 120 hours.

The Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche will implement pilot projects in order to increase vocational apprenticeships in the workplace. The objective is for 50% of the apprenticeship hours of each of these projects to be in the workplace.

— These apprenticeships will be devoted equally to the acquisition and application of knowledge. This model can then be applied to other programs.

As for technical training, the Minister establishes the programs of study in close collaboration with labour market stakeholders.

— He defines the skills to be acquired, and the objectives and standards, but the colleges determine the learning activities (labs, workshops, seminars, internships or other pedagogical activities).

— Internships are set up for nearly all the technical programs of study. There is a wide variety of practices.

The implementation of test projects based on the German dual model will seek to enhance current internship models, possibly by increasing the time spent by students in businesses, or by forming new kinds of partnerships with businesses for the use of equipment.

In these projects, the internships could account for 50% or even 60% of program duration. These projects will make it possible to establish various models adapted to technical training in Québec, which colleges might then be interested in adopting.

Germany's apprenticeship system model

The performance of the labour market in Germany, in recent years, compared with the rest of Europe, is such that Germany's dual model is increasingly being presented as an example to follow.

The dual model in Germany is designed for vocational training programs and highlights the importance of on-the-job apprenticeships. Apprentice training is split between workplace training and vocational studies at school.

The training is designed to provide the tangible skills required for practising a profession.

- Close to 1.5 million students currently benefit from this training system, where almost all of the practical training is industry-financed.

The model developed in Germany stems from its own historical and cultural conditions, especially from a tradition of cooperation between employers, unions, schools and governments on questions of training.

Québec would like to draw inspiration from this model in certain respects in order to maximize the opportunities its training system offers, particularly by encouraging greater participation by businesses in training, and increase the number of internships available.

❑ Increasing the tax credit for workplace training to promote business internships on a regular basis

Training in a workplace environment is one of the best ways to train a labour force. By offering a refundable tax credit to employers for on-the-job training, the government is especially aiming to:

- enhance students' vocational skills and their entry into the labour market;
- strengthen existing ties between businesses and educational institutions so as to align teaching activities with labour market needs;
- support businesses in their efforts to contribute to the development of students' skills.

However, the number of workplace internships completed by students enrolled in a vocational, technical or university program has increased only slightly in the last few years. In addition, only a small percentage of businesses offer these types of internship on a regular basis.

- Between 2006 and 2012, fewer than 5% of businesses claimed this tax credit each year.

To stimulate a greater use of paid workplace internships, the government is striving to improve the alignment between vocational, technical and university training and the demand for workers who are in the process of learning.

To achieve this, a few challenges need to be overcome:

- on the one hand, educational institutions must be able to offer students a sufficient number of internships and train a reasonable number of graduates to meet labour market needs;
- on the other, businesses have to be prepared to welcome trainees and cover the costs and the risks associated with their training.

In this context, the tax credit for workplace training will be increased in Budget 2015-2016 for employers that regularly welcome trainees enrolled in a vocational, technical or university training program.

- The tax-credit rates for eligible businesses will be increased from 24% to 40%, and from 32% to 50% when the trainees are immigrants or people in a handicap situation, two groups that are underrepresented in the labour market.
- To benefit from this increased rate, an employer must have incurred eligible expenses of at least $2 500 for the year, and in the previous two years, which generally corresponds to the cost of welcoming and supervising a trainee for a four-week period.

■ Illustrating the impact of the enhanced tax credit

The increase in the tax credit rate from 24% to 40% for a workplace internship enables businesses with eligible expenses of $15 000 to benefit from an additional tax credit of $2 400, provided the business hires trainees on a regular basis.

As a result, the net cost of eligible expenses to welcome trainees is reduced from $11 400 to $9 000, which represents a 21% reduction.

TABLE B.42

An illustration of the impact of the enhanced on-the-job training tax credit for repeated welcome of trainees by a company(1)

(dollars, unless otherwise stated)

	Unenhanced	Enhanced
Eligible expenses		
– Trainee wages	10 500	10 500
– Supervisory wages	4 500	4 500
Subtotal	15 000	15 000
Tax credit rate	24%	40%
Tax credit amount	3 600	6 000
Net cost of eligible expenses	11 400	9 000
DIFFERENCE	**—**	**–2 400**
AS A PERCENTAGE	**—**	**–21%**

(1) Taking into consideration that the business incurred eligible expenses of at least $2 500 during the two previous taxation years.

- **$5 million in additional aid thanks to the enhanced tax credit**

Approximately 650 businesses will benefit from the enhanced on-the-job-training tax credit, ultimately worth more than $5 million in additional aid annually.

TABLE B.43

Financial impact of the enhanced on-the-job-training tax credit to promote business internships on a regular basis
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Enhanced tax credit rates	−1.5	−4.8	−5.4	−5.5	−5.6	−22.8

TABLE B.44

Main parameters of the tax credit for on-the-job training – After the day of the 2015-2016 Budget Speech

Eligible employers	– Companies and individuals that operate a business in Québec.
Eligible individuals	– Students enrolled full-time or employees (apprentices) participating in one of the following programs: • vocational and technical training programs; • undergraduate and graduate university programs; • programs for the social and occupational integration of young people and adults or training programs in a semi-skilled trade; • Workplace Apprenticeship Program (WAP).
Tax credit rates	Base rates(1) – 24% – 32% for immigrants or handicapped individuals Increased rates(2) – 40% – 50% for immigrants or handicapped individuals For the increased rate to apply, the eligible expenses relating to one or several trainees registered in an eligible training program other than WAP must have been at least $2 500 in the taxation year and in each of the previous two taxation years.
Tax base	– Eligible expenses comprise the wages of: • the trainee or the apprentice (a maximum of $18/hour); • the supervisor (a maximum of $30/hour) for the hours devoted to supervising the trainee, based on a maximum of 10 or 20 hours per week depending on the eligible program;(3)(4) – Eligible expenses are limited by a weekly cap that varies depending on the eligible program and on whether the trainee is in a handicap situation or not.
Other conditions	– The program of study must include one or several internships of at least 140 hours in total for the duration of the program (there is no minimum for the WAP). – Educational institutions recognized by the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche or by Emploi-Québec are responsible for applying and managing the tax credit in collaboration with Revenu Québec.

(1) The rates are 12% and 16% (immigrants or handicapped individuals) for individuals operating a business.

(2) The rates are 20% and 25% (immigrants or handicapped individuals) for individuals operating a business.

(3) Only programs for the social and occupational integration of young people and adults or training programs in a semi-skilled trade are entitled to a maximum of 20 hours per week, given that students require greater employer supervision.

(4) The maximum number of hours of supervision granted to a handicapped person is doubled regardless of the eligible program.

5.1.4 A new Objectif emploi program: *Work pays*

Budget 2015-2016 will provide additional funds for the creation of a program aimed at new social assistance applicants to:

- promote their integration into the labour market;
- improve their living conditions;
- reduce the rate of social assistance;
- increase their contribution to Québec's economic development.

Receiving social assistance repeatedly or for long periods of time can lead to a progressive decrease in employability and in the ability to retain a job leading to financial independence.

Therefore, the moment to intervene is critical to facilitating the transition into a job, and action must be taken quickly to intervene in the case of new social assistance applicants before they see their employability diminish.

❑ Implementation of the new Objectif emploi program

At some point over the next few months, the Minister of Labour, Employment and Social Solidarity will announce the implementation of the Objectif emploi program aimed at offering intensive and personalized support to help new social assistance applicants find employment.

This initiative is part of an approach designed to intervene more effectively to help new social assistance applicants quickly re-enter the labour market.

The Objectif emploi program will be a mandatory step of limited duration, and is intended for new social assistance applicants, whether they are ready to enter the labour market or need support to get there. This program will enable participants to obtain an increase in financial assistance of nearly $250 per month when compared with social assistance.

It will be based on an individual action plan comprising activities adapted to the person's situation, such as help with finding a job or retraining. This plan will be matched by a commitment to carry out the planned activities to find employment.

To do this, additional credits worth $5 million per year will be granted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale for 2016-2017 and subsequent fiscal years.

❑ Promoting a smooth transition from social assistance to employment

Employment is a better choice for the social assistance recipient who is starting a job paying minimum wage, since the financial gain is significant in terms of disposable income.

For an individual who is single, is free to work and has no employment income, the annual disposable income is $8 974.

This same person working 35 hours a week at minimum wage will have $18 315 in disposable income (an increase of 104.1% compared to that of the first situation).

However, social assistance recipients may not perceive the job as being the optimal choice, for specific reasons.

- Part-time work, which is often a way of entering into the labour market, is unattractive because of the effective marginal tax rates that reduce the financial gain.
- The fear of losing certain benefits, such as the reimbursement of some costs incurred to meet their health needs and the payment of a portion of childcare expenses, can prevent social assistance recipients from taking a job.

Given this situation, we must examine job incentive mechanisms to understand how they can be strengthened so as to encourage a greater number of recipients to participate in the labour market.

As a result, the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Ministère des Finances reviewed the conditions and types of some income support and employment incentive transfers, so as to find the best approach to ensuring a smoother transition from receiving social assistance to accepting employment.

☐ Pilot project aimed at increasing the wage subsidy for participants in the Workplace Apprenticeship Program

Budget 2015-2016 will encourage the employment of those individuals who have not been employed for some time.

In support of the new Objectif emploi program, Budget 2015-2016 will provide an enhanced way of measuring the wage subsidy linked to the Workplace Apprenticeship Program (WAP).

- WAP is a key program that has enabled many people with no vocational qualifications to become certified through employment. Moreover, this program has expanded over the last few years.
- On the other hand, access to this program is difficult for individuals who have been unemployed for some time. Ideally, the program should be accessible to a broader cross-section to promote the employment of a greater number of individuals.

Under WAP, businesses that will be hiring an individual who has been unemployed for some time, including social assistance recipients with no vocational qualifications, will see the eligibility period for the subsidy increased from 30 to 52 weeks.

- The subsidy will be adjusted based on the experience the person hired is expected to gain. Consequently, the subsidy granted will be greater at the beginning of the period and will decrease over time, thereby also avoiding a significant impact on wages when the subsidy expires.

To achieve this, additional annual credits in the amount of $1 million will be transferred over the next three years to the Ministère du Travail, de l'Emploi et de la Solidarité sociale. The amounts earmarked for 2015-2016 will be placed in the Contingency Fund.

Workplace Apprenticeship Program

The Workplace Apprenticeship Program (WAP) offered by Emploi-Québec will enable workers having no or little work experience to develop their skills directly in the workplace. Experienced workers can have their skills officially recognized through this program.

- The program operates on the basis of a buddy system through which the experienced workers of a business provide training to the apprentice according to an established structure.
- The program also allows workers with no recognized qualifications to obtain vocational certification or a qualification certificate issued by Emploi-Québec, giving them a better chance at finding employment.

5.2 Strengthening the contribution of immigrants to the labour market

As the population of Québec ages and certain sectors of the economy experience a shortage of skilled workers, immigration represents a critical part of Québec's economic development.

In addition to responding to the manpower needs of the labour market, immigration contributes to innovation and entrepreneurship and is a source of capital for the Québec economy.

Québec must be able to count on the contribution of all types of talent to support its growth and prosperity.

5.2.1 An immigration policy directed at Québec's needs

For 25 years, the actions of the government with respect to immigration were based on the immigration policy *Au Québec pour bâtir ensemble*. During this time, Québec changed, as did its priorities.

With this in mind, the government began to take action to implement a new policy on immigration, diversity, and inclusion to ensure, among other things:

- that all foreign nationals are able to contribute more to Québec's economic growth;
- that Québec remain attractive to the best foreign candidates when compared to increasingly significant international competition.

In the spring, the Québec government will announce its new policy on immigration, diversity, and inclusion that will ensure the optimal contribution of immigration to the prosperity of Québec. It will be drawn up based on the results of the public consultations held at the beginning of 2015.

This policy will be accompanied by a strategic plan proposing concrete measures that will be taken to encourage the full participation of immigrants, in particular, by helping them find employment that best matches their abilities.

Primary results of the consultations held to discuss the implementation of a new immigration policy

The Committee on Citizen Relations held public consultations during which all interested stakeholders were able to express their opinions and their recommendations regarding the establishment of a new immigration, diversity, and inclusion policy in Québec.

- Sixty papers were filed as part of these public consultations.

The recommendations made in these papers were taken into account in the drafting of the new policy. Some general findings are already evident, including the importance of:

- making it easier to recognize and upgrade the skills of immigrants so as to ease their integration into the labour market;
  - This condition should be equally applicable to becoming a member of a professional body as to joining an unregulated profession.
- aiding the arrival of candidates who have obtained a job offer from a Québec employer;
- implementing incentives for hiring immigrants, particularly by promoting practical training or by maintaining the Employment Integration Program for Immigrants and Visible Minorities;
- encouraging immigrant regionalization.

5.2.2 $23 million over three years to promote full participation of immigrants

The economic potential of immigration will be further enhanced by the implementation of the new policy action strategy. Individuals selected by Québec will make an even greater contribution to the vitality and prosperity of Québec society.

Budget 2015-2016 allocates $22.5 million over the next three years to ensure the smooth implementation of this action strategy.

TABLE B.45

Financial impact of investments to bolster the immigration contribution to the labour market
(millions of dollars)

	2015-2016	2016-2017	2017-2018	Total
Promote recognition of immigrant skills and experience	−0.8	−1.0	−1.0	−2.8
Promote acquisition of occupation-related language skills	−0.8	−1.0	−1.0	−2.8
Support for the Employment Integration Program for Immigrants and Visible Minorities (PRIIME)	−1.5	−1.5	−1.5	−4.5
Support for the Interconnection program of the Board of Trade of Metropolitan Montréal	−1.0	−1.0	−1.0	−3.0
Promote the regionalization of immigrants	−1.3	−3.0	−3.0	−7.3
Support and accelerate the participation of immigrants in the labour market	−0.3	−1.0	−1.0	−2.3
TOTAL	**−5.5**	**−8.5**	**−8.5**	**−22.5**

Note: Since the figures were rounded, sums may not correspond to the totals indicated.

These investments to strengthen the contribution from immigration will make it possible:

- to design a competitive immigration system that attracts, selects and promotes the ongoing establishment of strategic talents that contribute to the vitality of the French language as well as the prosperity and diversity of Québec;
- to promote the recognition of immigrant skills and experience, which could benefit 14 000 immigrants from 2015 to 2018;
- for Québec immigrants who do not have sufficient mastery of French to acquire occupation-related language skills:
  - 8 500 additional immigrants could thus improve their language skills from 2015 to 2018;
- for immigrants and visible minorities to acquire initial work experience in Québec in an area directly related to their field, through a contribution to the budget for the Employment Integration Program for Immigrants and Visible Minorities (PRIIME);
  - this initiative will make it possible for about 1 700 immigrants and persons from visible minorities to benefit from this program yearly;
- to facilitate labour market entry of newcomers by maintaining government support for the Interconnection program of the Board of Trade of Metropolitan Montréal:
  - the goal of this program, operated in partnership with Emploi-Québec, is to promote valuable contact between businesses and qualified newcomers and promote their occupational integration;
  - it meets the needs of businesses as well as immigrants. About 600 businesses and organizations participate in this program and nearly 4 000 applicants are registered;
- to support the regionalization of immigration, with the goal of having 25% of immigrants settle outside the metropolitan region;
- to bolster and accelerate immigrant participation in the labour force to meet business workforce needs.

To allow for implementation of the new policy and promote the entry of immigrants into the labour market, the Ministère de l'Immigration, de la Diversité et de l'Inclusion will receive $3 million in additional appropriations in 2015-2016 and $6 million annually for the subsequent two years. In addition, $2.5 million will be allocated annually to the Ministère du Travail, de l'Emploi et de la Solidarité sociale from 2015-2016 to 2017-2018. For 2015-2016, the sums will be drawn from the Contingency Fund.

Furthermore, there will be additional appropriations of $10 million in 2018-2019 and 2019-2020 to strengthen the immigrant contribution to the labour market. The allocation of these amounts among the departments will be decided at a later date.

Details of this new policy will be announced in the near future by the Minister of Immigration, Diversity and Inclusiveness.

6. NEW INITIATIVES TO STIMULATE PRIVATE INVESTMENT

Given that Québec cannot rely on a natural increase in the number of workers to stimulate economic growth, it must rely on other factors, like increasing productivity.

Investments, including those by the private sector, represent one of the key drivers of increased productivity. The government had already announced initiatives to stimulate greater investment in Budget 2014-2015.

Budget 2015-2016 introduces measures that will stimulate investment – by community organizations to major businesses – in several strategic areas of the Québec economy.

This budget provides new initiatives totaling more than $400 million over the next five years. These amounts will be used to:

- promote the development of key sectors of the economy, particularly aluminium, social economy, the aerospace industry, video games and new technologies;
- launch the Maritime Strategy, including investments in port infrastructures, logistical hubs and industrial port zones as well as tourism infrastructure;
- promote the next generation of entrepreneurs, particularly in the primary and manufacturing sectors;
- develop our mineral, gas and forest resources.

TABLE B.46

Financial impact of measures to stimulate private investment
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Promote development of key sectors of the economy	−19.7	−40.4	−46.4	−27.1	−25.2	−158.8
Invest more than $1.5 billion in the Québec Maritime Strategy from now until 2020	−13.8	−17.8	−37.2	−48.5	−53.4	−170.7
Promote the next generation of entrepreneurs	−2.0	−2.0	−17.0	−15.0	−15.0	−51.0
Develop our natural resources	−7.1	−5.7	−5.7	−2.3	−5.0	−25.8
TOTAL	**−42.6**	**−65.9**	**−106.3**	**−92.9**	**−98.6**	**−406.3**

6.1 Promote the development of key sectors of the economy

Québec has a diversified economy that draws its strength from a number of different industries.

More specifically, Québec is known around the world for certain key industries including video games, aerospace and aluminum. In 2014, the latter two ranked first and second respectively as Québec's top export products.

- Other sectors in the Québec economy, such as social economy and clean technologies, have experienced significant growth.

The government plans to promote sector-based economic development by announcing investments of nearly $160 million over the next five years to:

- implement a new and improved tax holiday for major investment projects;
- implement the Québec aluminum industry development strategy;
- carry out a new government action plan in social economy;
- bolster development of Québec's financial sector;
- support the aerospace sector;
- strengthen the innovative capacity of businesses;
- help SMBs integrate information technologies;
- improve Québec intellectual property rights in the video game industry;
- stimulate risk capital investment in Québec technology companies;
- encourage tourism initiatives in Montréal;
- review liquor licences;
- simplify administration with respect to failures to comply with legislation governing alcoholic beverages;
- support public policy research.

TABLE B.47

Financial impact of measures to promote development of key economic sectors

(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New and improved tax holiday for major investment projects	—	—	−1.1	−2.1	−6.6	−9.8
Implementation of Québec aluminum industry development strategy	−7.0	−11.1	−14.4	—	—	−32.5
New government action plan in social economy	−3.2	−6.1	−6.0	−5.2	−6.5	−27.0
Bolster development of Québec's financial sector	−0.2	−0.2	−0.2	−0.2	−0.2	−1.0
Support the aerospace sector	—	−7.5	−7.5	−7.5	—	−22.5
Strengthen corporate innovative capacity	−5.0	−5.0	−5.0	—	—	−15.0
Help SMBs integrate information technologies						
– $3 million for the second phase of PME 2.0	−1.0	−1.0	−1.0	—	—	−3.0
– Extension of tax credit for integration of information technologies in manufacturing SMBs and extension to SMBs in the primary sector	−1.8	−6.5	−8.2	−9.1	−8.9	−34.5
$15 million for Québec intellectual property development in the video game industry	—	—	—	—	—	—
$15 million to stimulate risk capital investment in Québec technology companies	—	—	—	—	—	—
Encourage tourism in Montréal	—	−1.0	−1.0	−1.0	−1.0	−4.0
Support public policy research	−1.5	−2.0	−2.0	−2.0	−2.0	−9.5
TOTAL	**−19.7**	**−40.4**	**−46.4**	**−27.1**	**−25.2**	**−158.8**

6.1.1 New and improved tax holiday for major investment projects

To ensure a favourable business climate for businesses investing in Quebec, the government announced the introduction of an improved tax holiday for major investment projects on February 10, 2015.

To be eligible, projects must achieve an investment threshold of $100 million, which will allow for the completion of a large number of projects which would not otherwise have been possible.

- This tax holiday applies to income tax and contributions to the Health Services Fund (HSF).
- Sectors that could benefit from this holiday are the manufacturing, wholesale trade, and data storage, processing and hosting sectors.

To further stimulate regional investment, eligibility for the tax holiday is extended to new projects of $75 million and over in certain designated regions.

The 15-year tax holiday will allow more extensive projects to benefit fully from a tax holiday that could be as high as15% of the investment amount.

- Businesses have until November 20, 2017 to submit their investment proposals.

The tax holiday will allow Québec to attract more foreign investment. This tax holiday is expected to support the completion of at least 25 new projects across the province, representing investment of nearly $4 billion.

For the government, the financial impact will occur once the investments have been made.

TABLE B.48

Financial impact of new and improved tax holiday for major investment projects
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New and improved tax holiday for major investment projects	—	—	−1.1	−2.1	−6.6	−9.8

Profitability of the improved tax holiday for major investment projects

A tool for attracting new foreign investment projects

Competition to attract foreign investment that directly contributes to economic growth is worldwide.

Québec has significant incentives, such as abundant natural resources and an advantageous geographic location which encourage foreign businesses to invest here.

However, taxation plays an equally important role in deciding on the location of such investments.

The tax holiday is thus a powerful tool for promoting the completion of major projects in Quebec.

A profitable measure for the government

Major investment projects create well-paid jobs and stimulate construction activity and business with many Québec suppliers, which generates considerable tax revenue.

In addition, since the tax holiday applies to tax revenue that would not otherwise have been generated in Quebec, this measure ensures positive net tax revenues for the government.

Thus, it is estimated that each dollar of the tax holiday awarded leads to nearly $1.60 in tax revenue for the government.

6.1.2 Implementation of the Québec aluminum industry development strategy

Québec has a world-class aluminum industry with equipment manufacturers, specialized suppliers, primary aluminum producers and processors, as well as innovative stakeholders and other industrial bodies.

This sector is a strategic industry for Quebec. In fact, it:

- generated $5.1 billion in exports in 2013, about 10% of Québec exports;
- supports nearly 30 000 jobs, mostly regional;
- numbers more than 6 000 establishments in Quebec.

Over the past twenty years, the volume of aluminum consumed worldwide has increased at a rate of almost 5% per year. This constant increase should continue over the next few years.

To take advantage of business opportunities arising from the increase in worldwide demand, Québec must create a business environment that is favourable for all stakeholders in the province's aluminum industry.

The government thus intends to implement a provincial development strategy for the aluminum processing industry that would cover a ten-year period from 2015 to 2025.

Budget 2015-2016 will include funding of $32.5 million over a three-year period for the initial stages of this strategy. This sum should generate about $150 million in the first three years.

TABLE B.49

Financial impact of the Québec aluminum industry development strategy
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**Total**
Set up a favourable environment for aluminum processing in Quebec	−5.6	−8.1	−11.2	−24.9
Ensure business competitiveness in the industry	−0.2	−0.5	−0.7	−1.4
Bolster the entire industry in Quebec	−1.2	−2.5	−2.5	−6.2
TOTAL	**−7.0**	**−11.1**	**−14.4**	**−32.5**

☐ A strategy fuelled by a consultation process

Since October 2014, the government has been conducting consultations on Québec's aluminum industry development strategy.

The strategy to be announced soon will aim to:

— set up a favourable environment for aluminum processing in Quebec;

— ensure business competitiveness in the industry;

— bolster the entire industry in Quebec.

☐ Government investment of $32.5 million over a three-year period

Investment will be aimed at increasing aluminum processing in Quebec, particularly by:

— promoting the use of aluminum products in public markets among others;

— facilitating access to metal by supporting processors and others in their purchasing practices.

Funding to support new industrial activities in the form of loans or equity investment will be possible due to the increase in the budget envelope for the ESSOR program.

In addition, to increase industrial competitiveness, the Québec aluminum industry development strategy will provide support for business innovation projects, including industrial research under the Centre québécois de recherche et de développement de l'aluminium.

Moreover, the government also intends to use levers to strengthen and promote the industry.

— The Québec aluminum industry development strategy will therefore integrate measures to ensure the availability of a qualified labour pool, and to facilitate access to markets outside of Québec for Québec businesses, particularly through the support of Export Quebec.

To launch the Québec aluminum industry development strategy, $32.5 million in additional funding over the next three years, i.e. $7.0 million in 2015-2016, $11.1 million in 2016-2017 and $14.4 million in 2017-2018, will be allocated to the Ministère de l'Économie, de l'Innovation et des Exportations. Details of the Québec aluminum industry development strategy will be announced later by the Minister.

6.1.3 A new government action plan for social economy

Social economy has a significant place in the Québec economy, with more than 7 000 collective enterprises (cooperatives and non-profit organizations) working in various areas of activity and employing more than 150 000 persons.

The government has recognized this contribution to the socioeconomic development of Québec through the *Social Economy Act* and is using Budget 2015-2016 to publicize the strategic direction of the new government action plan for social economy.

☐ The new government action plan for social economy

Through this new government action plan, the government aims to promote the creation and maintenance of 30 000 jobs from now until 2020 with the following objectives:

- to equip businesses for development;
- to respond collectively to the challenges of an aging population;
- to encourage collective entrepreneurship;
- to develop markets and innovate;
- to contribute to the development of social economy businesses in all areas.

The new action plan is the result of cooperative work between the government and its partners through the Groupe prospectif de l'économie sociale au Québec and the Advisory Committee of Québec Social Economy Partners.

More than $100 million in funding is allocated under Budget 2015-2016 over the next five years to ensure deployment of the action plan.

TABLE B.50

Financial impact of the new government action plan for social economy
(millions of dollars)

		Financial impact					
	Total funding	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Equip businesses for development	60.0	−0.8	−2.6	−2.8	−4.0	−5.3	−15.4
Respond collectively to the challenges of an aging population	9.6	−1.9	−3.0	−2.7	−1.0	−1.0	−9.6
Encourage collective entrepreneurship	1.0	−0.2	−0.2	−0.2	−0.2	−0.2	−1.0
Develop markets and innovate	3.5	—	—	—	—	—	—
Contribute to the development of social economy businesses in all areas	29.4	−0.3	−0.3	−0.3	−0.1	−0.1	−1.0
TOTAL	**103.5**	**−3.2**	**−6.1**	**−6.0**	**−5.2**	**−6.5**	**−27.0**

Note: Since figures were rounded, sums may not correspond to the totals.

■ Equip businesses for development

Social economy businesses require tailored support and funding because of their purpose and structure. Regular programs are not always accessible or do not always meet their needs.

The government action plan for social economy will foster the growth of social economy businesses at various stages of their development (start-up, consolidation, expansion) by providing financial support tools totaling $60 million, specifically:

— $30 million to boost the Program for the capitalization of social economy companies, administered by Investment Quebec;

— up to $10 million for recapitalization of the Réseau d'investment social du Quebec, which offers small loans (less than $100 000) to social economy businesses;

— an increase of $20 million in the infrastructure program for collective entrepreneurship, which is intended to support the acquisition, construction and renovation of buildings for social economy businesses.

- **Respond collectively to the challenges of an aging population**

The aging of Québec's population is a significant issue for society; an increasing number of people will require daily assistance tailored to their needs. It is becoming imperative to support social economy businesses that aspire to better meet these needs.

To this end, the action plan will introduce various measures with respect to services for the elderly or persons suffering a loss of independence, representing nearly $10 million in funding over five years. More particularly, $6.5 million will be allocated to support the training of workers in social economy businesses providing home support.

- **Encourage collective entrepreneurship**

The purchase of a business by workers or local communities is a possible solution that ensures the survival of a business and encourages business succession.

To this end, the action plan will allocate $1 million over five years to support workers in the process of setting up a workers' cooperative to acquire a business.

- **Develop markets and innovate**

Social economy businesses are important sources of innovation, be it organizational, technological or related to market development. Québec has achieved international recognition in this area.

Investments of $3.5 million over five years are planned to facilitate the development of markets and the marketing of these innovations.

— For example, $3 million will be allocated to the organization Territoires innovants en économie sociale et solidaire which, as a liaison and transfer organization, plans to maintain an inventory of and provide clarification on experimental innovations in social economy businesses to facilitate distribution and ownership.

- **Contribute to the development of social economy businesses in all areas**

Regional stakeholders, which interact with community entrepreneurs and ensure joint regional action and promotion of the social economy, require support to carry out their mission.

The action plan will thus support various stakeholders in the social economy, including the Chantier de l'économie sociale, regional hubs of the social economy and regional development cooperatives through a partnership agreement between the Québec government and the Conseil québécois de la coopération et de la mutualité.

A total of $29 million will be allocated over five years to various organizations working in the field to support the development of social economy businesses, particularly in the regions.

☐ Additional $27 million in funding for implementation of the government action plan on social economy

An additional $27 million in funding will be allocated to the Ministère de l'Économie, de l'Innovation et des Exportations over the next five years for implementation of the government action plan on social economy, including $3.2 million in 2015-2016.

Full details of the measures in the government action plan on social economy will be provided by the Minister of the Economy, Innovation and Exports at a later date.

TABLE B.51

Additional funding for implementation of the government action plan on social economy
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Implementation of government action plan on social economy	3.2	6.1	6.0	5.2	6.5	27.0

6.1.4 Support for development of Québec's financial sector

The finance and insurance sector has an important place in Québec's economy. It represents 6.2 % of the GDP of Québec and, with its 150 000 jobs,[11] is one of the largest creators of jobs in Quebec. This sector also supports tens of thousands of indirect jobs, particularly in the administrative and information technology sectors.

Montréal is an internationally recognized financial centre. The metropolis ranks 18th in the Global Financial Centres Index,[12] an index which ranks the 83 largest financial centres in the world.

In fact, Montréal is home to the only stock market specialized in derivatives in Canada. This expertise raises the city's profile.

In addition, individuals and entrepreneurs in Québec need a competitive financial sector that is well-regulated, particularly in order to have access to quality financial products and services, be protected against the unexpected, grow their savings, finance their personal or professional projects and plan their retirement.

To enable the financial sector to evolve within a clear and foreseeable legal and regulatory framework and to promote cooperation among its participants, Budget 2015-2016 thus provides:

— financial support to Finance Montréal;

— a review of the legislative and regulatory framework of Québec's financial sector.

TABLE B.52

Financial impact of measures to support development of Québec's financial sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Support for Finance Montréal	−0.2	−0.2	−0.2	−0.2	−0.2	−1.0
Review of legislative and regulatory framework	—	—	—	—	—	—

In addition, the government will continue its efforts to counter the federal government's intention to set up a common securities regulator, since it would be damaging for the public investor as well as for Québec's business community.

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[11] INSTITUT DE LA STATISTIQUE DU QUÉBEC, *Emploi salarié et rémunération de l'industrie des services financiers*, Canada et provinces, édition 2014.

[12] www.zyen.com/research/gfci.html.

❑ $1 million to support Finance Montréal

Finance Montréal, the financial services cluster in Québec, was created in 2010 by financial stakeholders upon the invitation of the Québec government. The organization currently has nearly 40 members who oversee financing and participate in its numerous projects.

The accomplishments of Finance Montréal since it was founded have been significant and instrumental in the structuring of Québec's financial and economics sector. Finance Montréal has initiated six areas of endeavour on derivatives, finance and technology, infrastructure, human resources, entrepreneurship and retirement plan expertise.

In order to encourage continued concerted effort in the development of Québec's financial sector, $1 million in funding will be allocated to the Ministère des Finances over five years. This will provide up to $200 000 per year in support for Finance Montréal activities as of 2015-2016.

In addition, since it was created, Finance Montréal has worked closely with the Centre financier international de Montréal, the organization responsible for promoting Montréal as an international financial hub and making efforts to attract international financial centres. The government will be asking Finance Montréal, the financial services cluster in Québec, to integrate with and continue the activities of CFI Montréal - Centre financier international, to optimize activities to raise Montréal's profile in international circles.

❑ A revision of the legislative and regulatory framework of the Québec financial sector

In addition to ensuring the adoption of an effective and modern legislative framework for the financial sector, the government must make sure that bodies responsible for its application properly fulfil their mission.

The Autorité des marchés financiers (AMF) and the Bureau de décision et de révision are the prime players in the regulation and supervision of the Québec financial sector. They are governed by the *Act respecting the Autorité des marchés financiers*.

To ensure that the regulatory organizations in place fulfil their mandates and that Québec legislation provides an adequate framework, the budget calls for a review of:

- the *Act Respecting the Autorité des marchés financiers;*
- the *Act Respecting Financial services Cooperatives;*
- the *Act Respecting Insurance.*

Moreover, reports on the application of the *Act respecting the distribution of financial products and services* and the *Derivatives Act* will be presented by the government in 2015-2016.

Revision of the *Act Respecting the Autorité des marchés financiers*

Since its creation on February 1, 2004, the AMF has had to adjust to a regulatory environment that has changed greatly since the 2007-2008 financial crisis.

The AMF has also been entrusted with new foreign mandates that are not traditionally part of the mission of financial regulators, including the supervision of monetary services companies and granting authorizations to businesses that want to conclude contracts with government agencies.

Today the AMF plays a central role in the stability of the financial markets, protecting the public and maintaining the public's confidence in the financial sector. Through its actions, the AMF contributes to the support and development of the financial sector.

Since its creation in 2004, the AMF has always maintained the highest standards of support and supervision. Given the evolution of the financial sector environment and the expanded scope of its mandates, the legislation that governs its operations will be reviewed. This review will be an opportunity to re-evaluate its mission, governance structure and financing, in order to ensure that the AMF's means are in keeping with the new realities of its environment.

Similarly, the provisions governing the Bureau de décision et de révision, whose name will change to "Tribunal administratif des marchés financiers" will also be reviewed so that it can continue to effectively perform its role, thus contributing to the protection of investors and market integrity.

Revision of the *Act Respecting Financial services cooperatives*

Following the Report on the application of the *Act Respecting Financial services Cooperatives* released in December 2013, the government is planning to table a bill to reformulate the act.

This law primarily governs the Mouvement Desjardins, which is a major asset for the economy of Québec. It is vital to ensure that this institution continues to benefit from a legislative framework that keeps it effective and competitive.

Revision of the *Act Respecting Insurance*

Moreover, to follow up on the recommendations of the March 2013 Report on the application of the *Act Respecting Insurance* and the *Act Respecting Trust Companies and Savings Companies*, legislation will be tabled to reformulate the *Act Respecting Insurance*.

The insurance sector has also had to respond to fast-paced changes in the market and the introduction of new technologies in the last few years. The new law on insurers will strengthen the protection of insured persons.

6.1.5 Support for the aerospace sector

With almost $14 billion in sales and 41 750 jobs in 2014, the aerospace industry plays an important role in the economy of Québec.

☐ A strategy for the aerospace sector

To maintain a competitive position in a fast-changing market, the Québec aerospace sector must further expand its efforts to innovate.

The government will continue to support this important sector for the Québec economy and will propose a new development strategy for the aerospace sector in 2015.

The purpose of this strategy, which will be developed in partnership with the industry, is to:

- foster the retention and establishment of Québec businesses in this sector;
- support motivating projects to ensure the competitiveness of the sector and stimulate innovation.

☐ Completion of the second phase of the green aircraft

To support this sector in its efforts to adapt to new environmental rules, Budget 2010-2011 provided for the implementation of a greener aircraft catalyst project, the Smart Affordable Green Efficient (SA^2GE) project.

This project led to the completion of structuring initiatives used to demonstrate new aerospace technologies.

- These initiatives aimed to develop technologies to reduce the consumption of jet fuel.

To take the first steps in the future strategy, Budget 2015-2016 provides for investments of $40 million in the next four years to complete the second phase of the SA^2GE project.

- An equivalent contribution from the private sector is expected, bringing new investments in the SA^2GE project to $80 million.

To this end, $22.5 million in additional credits will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations in the next four years.

— This amount will be completed by a $17.5 million in funding from the Green Fund.

Details on the second phase of the SA^{2}GE project and the strategy for developing the aerospace sector will be announced at a later date by the Minister of the Economy, Innovation and Exports.

TABLE B.53

Government investment for the second phase of the green aircraft
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**2018-2019**	**Total**
Additional credits	—	7.5	7.5	7.5	22.5
Expected Green Fund envelope	10.0	2.5	2.5	2.5	17.5
TOTAL	**10.0**	**10.0**	**10.0**	**10.0**	**40.0**

6.1.6 Strengthen the innovative capacity of businesses

Like other jurisdictions, Québec has set the goal of reaching a level of investment in research and development (R&D) equal to 3% of its GDP.

Reaching this target requires the development of the innovative capacity of businesses, particularly SMBs, and supporting R&D intensive sectors.

Budget 2015-2016 thus provides for investment of $15 million over three years to strengthen the following:

- formation of partnerships between researchers and businesses;
- protection of intellectual property;
- sharing of knowledge between businesses and the next generation.

The government will make sure to implement conditions conducive to the growth of R&D in certain strategic sectors, including the biopharmaceutical sector.

❑ Forming partnerships

The Passport Innovation measure will be implemented to support SMBs, not-for-profit cooperatives and social development organizations at various stages of a project, and to help them to strengthen their innovative capacity.

The purpose of this measure is to encourage consultation with member organizations in the Réseau recherche innovation Québec (RRIQ) in innovation projects.

- The RRIQ is composed of college technology transfer centres, cégeps, universities, university research centres and institutes and applied research centres.

Those who take advantage of the measures will have easier access to a set of services that are useful to the advancement of a project that involves applied research, testing and experimentation and requires the support of a specialized organization.

☐ First patent

To help SMBs in their efforts to protect their innovations, the government will implement the First Patent measure.

With this measure, SMBs, including cooperatives and social economy businesses, will benefit from financial support in their process to protect intellectual property, mainly through patents.

Through this measure, the government aims to encourage SMBs to take solid steps to protect their innovations in order to market them faster and, by the same token, benefit the entire population.

Support for the Institut de recherche en immunologie et en cancérologie

The creation of the Institut de recherche en immunologie et en cancérologie – Commercialisation de la recherche (IRICoR) has made it possible to turn the results of basic research by researchers at the Institut de recherche en immunologie et en cancérologie into new therapeutic approaches that now have clinical applications.

These successes have led to numerous partnerships with multinational pharmaceutical companies, which have translated into investments of tens of millions of dollars in R&D, the creation of over 150 direct jobs, and over $2 million in commercial income reinvested by IRICoR in new projects.

IRICoR now aims to create small and medium Québec enterprises in the biopharmaceuticals field.

In this context, the Québec government wishes to support IRICoR's participation in year 2016 competitions held by in federal centres of excellence for commercialization and research. To this end, the IRICoR will receive financial assistance, starting in 2016, following a favourable decision by the federal government to participate in financing the project.

☐ Sharing of knowledge between the next generation and businesses

To encourage the transfer of knowledge between the next generation and businesses, the government will implement two new measures:

- Innovation training courses in businesses;
- First job in research.

These measures will facilitate the transition of students and highly qualified college and university graduates into the work force, by favouring their hiring in innovative businesses.

■ Innovation training courses in business

To allow college and university level students to acquire experience within a business during their studies, Budget 2015-2016 provides for the implementation of Innovation training courses in businesses.

The government will offer a financial contribution of up to $5 000 for four-month training session worth a maximum of $15 000 in a business. The business and the federal government will make up the difference.

■ First job in research

In order to support the creation of jobs in research, Budget 2015-2016 provides for the implementation of the First job in research measure.

With this measure, the government will offer financial support for the hiring of new highly qualified graduates by public research centres for projects conducted in partnership with businesses.

New graduates will be able to benefit from practical professional experience while businesses and research centres will benefit from their knowledge.

☐ $15 million in investments over the next three years

To launch these initiatives, Budget 2015-2016 provides that additional credits of $5 million per year for the years 2015-2016 to 2017-2018 will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations.

Details on the measures and the amounts allocated to them will be announced at a later date by the Minister of the Economy, Innovation and Exports.

Creation of a task force on the biopharmaceutical sector in Québec

The government wants to foster the development of the biopharmaceutical industry, whose activities form a key sector of our economy and create high value-added jobs.

Over the past several years, this industry has faced challenges that have led it to review its business model and to adopt new approaches oriented towards the externalization of research activities.

For Québec to benefit from the major economic spinoffs derived from this industry, the government plans to create a task force to determine possible courses of action that would ensure the sustainable development of the biopharmaceutical industry in Québec, taking into account the evolving context in which the industry operates.

The task force will be composed of industry and government representatives and will come under the Ministère de l'Économie, de l'Innovation et des Exportations, with assistance from the Ministère de la Santé et des Services sociaux and the Ministère des Finances du Québec.

6.1.7 Encouraging SMBs to integrate information technologies

Québec SMBs must make the shift to the digital environment if they want to remain competitive on an international level. This shift will be driven by the adoption of powerful new information technology (IT) tools to ensure best management and production practices.

In the last few years, the Québec government has implemented several measures to develop systems solutions that meet the needs of businesses and reduce IT investment costs, mainly through PME 2.0 and the tax credit on the integration of IT in manufacturing SMBs.

Budget 2015-2016 provides two incentives to make SMBs more competitive by integrating IT and adopting digital technology:

— $3 million over three years for the second phase of the PME 2.0 program;

— extension of the tax credit on the integration of IT in manufacturing SMBs and its expansion to SMBs in the primary sector.

These initiatives represent close to $38 million in investments over the next five years.

TABLE B.54

Financial impact of measures designed to encourage SMBs to integrate IT
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**Total**
Launching of the second phase of the PME 2.0 program	−1.0	−1.0	−1.0	—	—	−3.0
Extension of the tax credit on the integration of IT in manufacturing SMBs and its expansion to SMBs in the primary sector	−1.8	−6.5	−8.2	−9.1	−8.9	−34.5
TOTAL	**−2.8**	**−7.5**	**−9.2**	**−9.1**	**−8.9**	**−37.5**

❑ $3 million for the second phase of the PME 2.0 program

To support Québec SMBs in the shift to digital, the government implemented the PME 2.0 program in Budget 2012-2013.

Over the past three years, this program has helped 30 SMBs in the fashion and aeronautical sectors integrate IT and laid the groundwork for a structured approach that provides better support to SMBs that are adopting digital technology.

— Concretely, these 30 SMBs invested more than $10 million in their digital integration projects, which positions them to benefit from digital capabilities, improve operational efficiency and sustain their growth.

To launch the second phase of the PME 2.0 program, Budget 2015-2016 provides for $3 million in investment over the next three years.

These funds will be used to help businesses analyze their needs and develop a digital action plan, and to advise them on the best technologies available. The scope of the program will also be broadened to:

— promote the adoption of solutions that allow retail businesses to get the maximum out of e-commerce solutions;

— follow the manufacturing SMBs shift to industry 4.0;

— foster the use of digital technologies by social economy businesses.

To this end, additional credits of $1 million per year will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations for years 2015-2016 to 2017-2018.

Definition of industry 4.0 and digital enterprise

Industry 4.0

The concept of industry 4.0 is a new way to organize production methods. The goal is to create "smart" plants that can adapt production more quickly, with a more effective allocation of resources, thus paving the way to a new industrial revolution.

The main tools are:

- sensors that can gather, use and send information;
- automatons that guide fabrication;
- adaptable and "smart" industrial robots;
- product lifecycle management software;
- emerging technologies.

Digital enterprise

For SMBs, digital enterprise is a model for optimal functioning, where digital data to support the production, decision and delivery of services in the business's entire value chain are integrated with the information systems.

☐ Extension of the tax credit for integrating information technologies in manufacturing SMBs and expansion to primary sector SMBs

In October 2013, a tax credit for IT integration expenses in manufacturing SMBs was introduced to encourage them to integrate high value-added software in their business process.

When the government announced the creation of the Québec Taxation Review Committee in Budget 2014-2015, it suspended the tax credit while it evaluated the best way to support IT integration in manufacturing SMBs.

In its report, the commission recommended that the tax credit be renewed, given that Québec businesses are somewhat behind in the integration of IT in their business processes, particularly in terms of management software packages.

In Budget 2015-2016, the tax credit for IT integration in manufacturing SMBs will be reinstated the day following the day of the 2015-2016 Budget Speech, at a rate of 20%, and its period of application will be extended to December 31, 2019.

In addition, to allow a greater number of businesses to benefit from this tax measure, eligibility for the tax credit will be expanded to primary sector SMBs.

The government thus recognizes the importance for SMBs in the primary and manufacturing sectors of using business management software as part of a structured approach, since they promote productivity gains and improve competitiveness.

— These information system tools are used to integrate business functions, and to optimize customer relations and the supply chain.

When fully implemented, a financial impact of almost $10 million per year is expected.

TABLE B.55

Main parameters of the refundable tax credit for the integration of information technologies in manufacturing and primary sector SMBs(1) – After the day of the 2015-2016 Budget Speech

Eligible companies	Manufacturing or primary sector SMB with an establishment in Québec: – Paid-up capital of less than $20 M(2) – The business' main activities must be manufacturing or processing activities and primary sector activities (more than 50%)
Eligible expenses	80% of the expenses for an integration business management package contract certified by Investissement Québec
Ceiling of eligible expenses	Cumulative eligible expenses of $250 000 for the entire period in which the tax credit is applied
Rate	20% of eligible expenses, which represents a maximum amount of tax credit of $50 000 per company
Term	Expenses incurred after the day of the 2015-2016 Budget Speech and before January 1, 2020 as part of the granting of eligible contracts

(1) For an information technologies integration contract that has been certified by Investissement Québec after the day of the 2015-2016 Budget Speech.

(2) The tax credit rate will be reduced linearly for businesses in the manufacturing and primary sector with a paid-up capital, calculated on a worldwide consolidated basis, of $15 M to $20 M.

6.1.8 $15 million to develop Québec intellectual property in the video game field

The fall 2014 *Update on Québec's Economic and Financial Situation* announced a $30 million investment by the Québec government to promote the emergence of corporate venture capital in Québec.

Budget 2015-2016 stipulated that a first allocation of $15 million will be reserved for investments that will be made in collaboration with businesses in the video games sector.

This allocation will be used to acquire a stake in projects that help create quality jobs in the video games sector, maintain intellectual property in Québec and achieve a higher percentage of income from funded products.

☐ Investment parameters in the video games sector

Through Investissement Québec, the government will invest in video game projects destined for export. The investments will be made in businesses whose head office or primary business office is based in Québec and whose intellectual property is mainly controlled by the Québec business.

Government investments will match the investments of private businesses. The government contribution, carried out on a business basis with an expected return, will be:

- a maximum of 35% of the total project cost;
- a minimum of $175 000 and a maximum of $3 million per project.

With the involvement of video game businesses, the leveraging generated by the government investments will inject a minimum of $42.9 million in Québec businesses.

The detailed parameters defining government investment in such projects will be announced soon by Investissement Québec and the Minister of the Economy, Innovation and Exports.

TABLE B.56

Expected minimum investments to develop Québec intellectual property in the video games field
(millions of dollars)

	Investments
Québec government (maximum 35%)	15.0
Video game businesses (minimum 65%)	27.9
TOTAL	**42.9**

❑ Additional investment of $15 million for other sectors

The government will soon determine the allocation conditions for the $15 million available from the $30 million allocation announced in the fall 2014 *Update on Québec's Economic and Financial Situation* to foster the emergence of corporate venture capital in Québec.

The government's goal is to establish partnerships to increase corporate venture capital investments in Québec, in sectors such as information technology and communications, life sciences, green technologies and the innovative manufacturing sector.

The partnerships created in these areas will seek to:

- enhance the presence in Québec of technology businesses with strong growth potential;
- invest in defined and structured projects so that the government obtains a return on its investments in a defined period of time;
- mobilize large businesses so that they invest venture capital in innovative Québec projects in order to meet strategic and financial profitability objectives.

6.1.9 $15 million to stimulate venture capital investments in Québec technology businesses

Access to venture capital is a challenge for all technology businesses seeking financing. In Québec, this challenge is even more difficult for businesses without proximity to the primarily Montréal-based venture capital funds.

Technology businesses financed by venture capital benefit not only from capital to finance their growth, but also from advice and support from management teams that have a great deal of business experience, in addition to very useful specialized networks.

To ensure the adequate financing of technology businesses throughout Québec in the seed and startup phase, Budget 2015-2016 provides up to $15 million to be invested in a venture capital fund with a targeted size of $30 million.

This fund, based in Québec, will invest in different technological sectors all across Québec.

☐ Collaboration with the private sector and local economic development players

The venture capital fund financed by the government must satisfy the following investment parameters:

- a fund with a minimum size of $20 million;
- capital that will be matched on the principle of $1 from the government for a minimum of $1 from private or institutional investors;
- good knowledge of the business ecosystem in the Québec City region and plans to be actively involved in the development of the entrepreneurial environment of the Québec City region;
- a management team with a history of entrepreneurial performance, mastery of the venture capital investment process and the willingness to invest in the fund's success;
- good governance.

To participate in the region's efforts to stimulate the entrepreneurial community, and given their complementary natures, the fund's offices will be located in Le Camp, Québec's technology incubator-accelerator. Le Camp, located in the Saint-Roch neighbourhood of Québec, specializes in providing support to growing technological businesses. It offers a range of services adapted to their state of maturity, from startup to expansion.

As the Québec government agent, Investissement Québec will be in charge of rolling out this new fund. The government will participate in the form of an investment with an objective of financial profitability. To this end, the amounts necessary for the participation of the Québec government will be made available through an advance to the Economic Development Fund.

Details about this new fund will soon be made public by the Minister of the Economy, Innovation and Exports, by the Minister responsible for the National Capital region and by the City of Québec.

TABLE B.57

Targeted capitalization of the new venture capital fund based in Québec
(millions of dollars)

	Allocation
Québec government	15.0
Private and institutional investors	15.0
TOTAL	**30.0**

6.1.10 Encourage tourism in Montréal

The tourist industry contributes to the economies of every region of Québec. There are more than 340 000 jobs in tourism related sectors, accounting for almost 9% of all jobs in Québec.

Sport tourism is currently the fastest growing segment of the tourist industry. In addition to being a tourist impact, this sector generates significant benefits from an economic standpoint. High profile sporting events in the Montréal area consolidate the international image of the host city and Québec.

To encourage tourism in Montréal, additional credits of $1 million will be granted to the Ministère des Finances starting in 2016-2017, to be transferred to the Fonds de partenariat touristique.

☐ Expansion of the Palais des congrès de Montréal

Business tourism is a true economic engine. On average, the Palais des congrès de Montréal and its activities have generated annual economic spinoffs of some $188 million in the last nine years.

To ensure the overall appeal of Montréal as a business destination, the government announces the completion of studies linked to the project to expand the Palais des congrès de Montréal.

6.1.11 Revision of permits on the sale of alcohol

❑ Permits to sell alcohol for consumption on the premises

Under the Act respecting liquor permits,[13] the Régie des alcools, des courses et des jeux (RACJ) issues a permit to sell alcohol for consumption on the premises[14] for each room or the terraces of an establishment, whether a bar or a restaurant.

— Therefore, an establishment that contains several rooms or terraces must have several permits.

Separate permits must be issued for bars, pubs and taverns. The category of permit issued depends on the type of alcoholic beverages sold.

There are two types of permits to sell alcohol for consumption on the premises in restaurants: one to sell and the other to serve ("Bring your own wine" restaurants). However, a restaurant owner can only have one category of permit (sell or serve) at a time.

These administrative requirements lead to the issuance of a large number of permits.

TABLE B.58

Number of establishments holding permits to sell alcohol for consumption on the premises, by category of permit(1)
(number of establishments)

	Bar permit	Pub permit	Tavern permit	Restaurant permit to sell	Restaurant permit to serve
1 permit	3 243	11	16	4 199	952
2 permits	2 423	10	2	2 009	297
3 permits	613	3	—	302	46
4 or more permits	246	—	—	104	13
TOTAL NUMBER OF ESTABLISHMENTS	**6 525**	**24**	**18**	**6 614**	**1 308**

(1) March 2015.
Source: Régie des alcools, des courses et des jeux. Compiled by the Ministère des Finances du Québec.

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[13] RLRQ, section P-9.1.

[14] Permits for the sale of alcohol for consumption on the premises allow for the consumption of alcoholic beverages in the establishment that holds the permit and its appurtenances. In comparison, permits for the sale of alcohol for consumption "at home", such as grocery store permits, authorize consumption in a place other than the establishment that holds the permit and its appurtenances.

☐ A considerable reduction in the number of permits issued by the Régie des alcools, des courses et des jeux

Representatives from the restaurant and bar sector have sensitized the government to the fact that current regulations must be modernized and simplified in order to better reflect current practices of restaurant and bar owners and their customers.

— This issue was raised in the report by the Groupe de travail sur l'encadrement des conditions de vente et de service des boissons alcooliques dans les restaurants[15] and by bartenders during the parliamentary committee on Bill 28[16] which provides for sales recording modules in bars and resto-bars.

Hence, to reduce the administrative burden of bar and restaurant owners, the government will propose legislative amendments that aim to:

— implement a single permit, by category of permit, for the sale of alcohol for consumption on the premises, regardless of the number of rooms;

— combine bar, pub and tavern permits into a single category, which will be named "bar permits".

Therefore, it will no longer be necessary to issue an alcohol permit for each room of an establishment where alcohol is sold. In addition, a single category of permit will exist for the sale of alcohol in bars.

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[15] MINISTÈRE DES FINANCES DU QUÉBEC, *Rapport du Groupe de travail sur l'encadrement des conditions de vente et de service des boissons alcooliques dans les restaurants*, 2014.

[16] Bill concerning primarily the implementation of certain provisions of the June 4, 2014 Budget Speech and targeting the return to a balanced budget in 2015-2016.

The implementation of a single permit for the sale of alcohol on the premises will considerably reduce the number of permits issued by the RACJ.

- Currently, almost 15 000 establishments hold more than 22 000 permits for the sale of alcohol for consumption on the premises.
  - More than half of bars hold more than one permit to sell alcohol.
  - About 35% of restaurants hold more than one permit to sell alcohol.
- It is estimated that this measure will reduce the number of permits issued each year by the RACJ by about 8 000.

Implementation of a single permit could lead to a review of the rates on alcohol permits for consumption on the premises.

- The terms and conditions of these new rates must be based on the establishment's capacity, as is the case for the current rates, and on the principle that the announced measure should not impact government revenues.

The effective date of the new permit will be determined on the date set out in the bill that will implement the measures in this budget.

TABLE B.59

Change in the number of permits to sell alcohol for consumption on the premises issued by the Régie des alcools, des courses et des jeux(1)
(number of establishments and number of permits)

	Before simplification		After simplification		Difference	
	Establishments	Permits	Establishments	Permits	Establishments	Permits
Bars	6 525	11 150	6 567	6 567	42	−4 583
Pubs	24	40	—	—	−24	−40
Taverns	18	20	—	—	−18	−20
Restaurants that sell alcohol	6 614	9 584	6 614	6 614	—	−2 970
Restaurants that serve alcohol	1 308	1 738	1 308	1 308	—	−430
TOTAL	**14 489**	**22 532**	**14 489**	**14 489**	**—**	**−8 043**

(1) According to the number of establishments holding licenses to sell alcohol for consumption on the premises in March 2015.

Sources: Régie des alcools, des courses et des jeux and Ministère des Finances du Québec.

The various alcohol permits for consumption on the premises issued by the Régie des alcools, des courses et des jeux

The Régie des alcools, des courses et des jeux currently issues two categories of alcohol permits for consumption on the premises.

- Restaurant permits allow alcoholic beverages to be sold or served for consumption on the premises in establishments where minors are authorized.
- Bar, pub and tavern permits allow alcoholic beverages to be sold for consumption on the premises in establishments reserved for people age 18 and older only.

Restaurant permit

On the one hand, the restaurant permit to sell authorizes its holder to sell alcoholic beverages with a meal.

On the other hand, the restaurant permit to serve authorizes its holder to serve alcoholic beverages to its customers or to allow them to consume alcoholic beverages that they bring to the restaurant for a meal.

An establishment owner cannot hold more than one category of restaurant permit to sell alcohol.

The two categories of restaurant permit, namely the restaurant permit to sell and the restaurant permit to serve, along with their terms and conditions, will remain in place after the single permit takes effect.

Bar, pub and tavern permit

Bar, pub and tavern permits allow for the sale of alcoholic beverages for consumption on the premises in establishments reserved for people age 18 and over only.

These three categories of permit authorize the sale of alcoholic beverages by the permit holder. However, these different permits contain restrictions as to the types of alcoholic beverages sold.

For example, pub and tavern permits do not allow their holders to sell spirits.

The owner of an establishment reserved for adults can be the holder of more than one category of permit to sell alcohol.

Thanks to the implementation of the new bar permit, owners of establishments reserved for adults will only need one bar permit, like restaurant owners.

Sources: Régie des alcools, des courses et des jeux and Ministère des Finances du Québec.

☐ Emphasize socio-economic criteria in the management of video lottery machines

The introduction of a single permit requires a re-examination of the number of video lottery machines authorized per site operator licence.

Currently the regulations set the maximum number of video lottery machines per licensed site operator at five. To obtain the permit, the site operator must have a bar, pub, or tavern permit.

To implement a single permit for the in-house sale of liquor requires amending the regulations authorizing the use of video lottery terminals (VLTs). A legislative amendment will thus be submitted to ensure the social and economic criteria used to determine the geographical distribution of VLTs will now be approved by the government. Furthermore, the maximum number of VLTs which can be authorized by Loto-Québec will remain at 12 000.

This will make it possible for Loto-Québec to manage its VLT pool more effectively, while protecting the social and economic segments of society that are more at risk.

6.1.12 Simplify the administration required for offences to laws on alcoholic beverages

A labelling system for alcoholic beverages is currently in place and ensures that:

- products sold in licenced establishments were indeed purchased at the Société des alcools du Québec (SAQ);[17]
- business taxes and Québec sales tax are applied based on real transactions, by controlling reported sales and purchases made at the SAQ;
- the specific tax on alcoholic beverages sold in establishments has been paid.

The Régie des alcools, des courses et des jeux (RACJ) systematically takes alcohol permit holders to court when police forces observe a bottle-labelling infraction, as provided by law.

To simplify the administrative procedures related to alcoholic beverage offences, the government announces that the bill to implement the measures of Budget 2015-2016 will introduce legislative amendments, particularly to the Act respecting liquor permits.[18] These amendments will allow for more flexibility in the application of labelling sanctions.

- The RACJ's obligation to systematically suspend a permit following some offence to the Act respecting offences relating to alcoholic beverages will be replaced by the addition of a provision stipulating that the RACJ may suspend the holder's permit. This flexibility will allow the RACJ to take into account the individual circumstances it may be presented with.
- Other legislative amendments will provide that administrative sanctions, which will vary according to the seriousness of the offence, could be imposed in the event of an offence, to avoid resorting solely to suspension of the permit.

6.1.13 Support for research on public policies

The government wishes to continue its support for research on public policies and the challenges facing Québec.

To this end, starting in 2015-2016, funding will be granted to the Centre interuniversitaire de recherche en analyse des organizations (CIRANO).

Furthermore, an additional $1.5 million in 2015-2016 and $2 million for the next years will be allocated to the Ministère des Finances.

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[17] The SAQ has a monopoly on the sale of wines and spirits in Québec and is responsible for ensuring product quality.

[18] CQLR, chapter P-9.1.

6.2 Investments of over $1.5 billion by 2020 under the Québec maritime strategy

The government plans to leverage Québec's strengths to develop the economy and promote job creation. The St. Lawrence has immense potential in this regard. Québec will be able to realize this potential through the 2015-2030 maritime strategy, which emphasizes the development of the St. Lawrence.

The maritime strategy will involve all stakeholders engaged in the development and protection of marine resources and in the development of all maritime industries, particularly Québec ports, which are gateways to world markets.

The strategy will promote economic growth and revitalize Québec regions while protecting the environment and local communities.

Under the maritime strategy, 30 000 jobs will be created and sustained across all regions of Québec by 2030.

❑ Major strategy

In recent months, the government's consultations and work on the maritime strategy have helped to:

- define measures the government should implement to stimulate investment and develop the know-how required to successfully execute this major project;
- ensure that the proposed actions are aligned with the vision and intentions of marine sector stakeholders.

By June 2015, the Minister for Transport and Implementation of the Maritime Strategy will announce the details of this comprehensive strategy to be deployed over the next fifteen years.

- The government will implement three five-year action plans within the time frame of the maritime strategy.

To ensure rapid and effective implementation of the maritime strategy, Budget 2015-2016 introduces new initiatives that will form the core of the first 2015-2020 five-year action plan for this strategy. These initiatives aim to:

- accelerate investment in commercial port infrastructure in Québec;
- promote the establishment of logistical hubs with the support of partners;
- attract private investment by focusing on logistical and port infrastructure;
- promote the development of maritime tourism, including developing cruise facilities in Montréal and Québec City;
- extend the refundable tax credit for the Gaspésie region and certain maritime regions of Québec and enhance it for Îles-de-la-Madeleine;
- support research and innovation for sustainable development of Québec's maritime potential;
- support the maritime industry through key initiatives, including the training of labor and export support;
- coordinate government action in a process that promotes economic benefits for Québec.

☐ Investments of more than $1.5 billion

With these new initiatives and actions taken in recent months, including introducing tax incentives for the construction and refitting of ships, Budget 2015-2016 provides a budget allowance of over $1.5 billion for the 2015-2020 period.

The government is thus ensuring the Québec maritime strategy has substantive tax and financial leverage to stimulate investment from the private, public and institutional partners required for regional development and job creation.

TABLE B.60

Initiatives planned by the Québec government for 2015-2020
(millions of dollars)

	Amount of aid
New initiatives	
Accelerate investment in commercial port infrastructure in Québec	200.0
Encourage the establishment of logistical hubs with the support of partners	400.0
Attract private investment by leveraging Québec's logistical and port infrastructures	450.0
Promote the development of maritime tourism	76.6
Extend the refund tax credit for the Gaspésie region and certain other maritime regions of Québec and enhance it for Îles-de-la-Madeleine	55.5
Support research and innovation(1)	15.8
Introduce key initiatives to support the maritime sector	70.0
Coordinate government action	1.5
Current initiatives	
Improving road access to the Port of Montréal(2)	75.0
Tax incentives for the construction or refitting of ships and to support job creation in maritime regions(3)	109.4
New program for the development of maritime tourism and redevelopment of the Dalhousie site in Québec City	61.0
TOTAL	**1 514.8**

(1) Also includes $0.8 million announced in Budget 2014-2015 to support projects by recognized Québec marine biotechnology research institutions.
(2) Preliminary estimates before studies to determine the priorities for improving access to the Port of Montréal by redeveloping the Sherbrooke exit off Highway 25, and work on Assumption Boulevard.
(3) Includes the following tax incentives: additional depreciation allowance of 50% for the construction or refitting of ships, incentive for the creation of a tax-free reserve for ship owners, refundable tax credit for the construction or conversion of ships and refundable tax credit for the Gaspésie region and certain maritime regions of Québec (in force until December 31, 2015).

❑ Plan for financing the maritime strategy

To fund the new initiatives announced for the maritime strategy in Budget 2015-2016, the government plans to allocate $170.7 million over the next five years. To this are added significant sums out of the planned allocations to existing programs.

TABLE B.61

Financial impact of new initiatives announced in Budget 2015-2016 for implementation of the maritime strategy
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**Total**
Accelerate investment in commercial port infrastructure	−0.3	−1.6	−3.9	−7.5	−12.9	**−26.2**
Encourage the establishment of logistical hubs with the support of partners	—	—	−0.4	−2.6	−6.4	**−9.4**
Attract private investment by focusing on logistical and port infrastructure	−10.0	−10.0	−12.5	−12.5	−7.5	**−52.5**
Foster the development of maritime tourism	−0.1	−0.7	−2.1	−8.0	−8.6	**−19.5**
Tax credit for the Gaspésie region, Îles-de-la-Madeleine and certain maritime regions:						
– 5-year extension	—	−1.7	−14.5	−15.3	−15.6	**−47.1**
– Enhancement for Îles-de-la-Madeleine	−0.2	−2.0	−2.0	−2.1	−2.1	**−8.4**
Support research and innovation	−1.7	−1.8	−1.8	−0.5	−0.3	**−6.1**
Key initiatives to support the maritime sector	—	—	—	—	—	**—**
Coordinate government action	−1.5	—	—	—	—	**−1.5**
TOTAL	**−13.8**	**−17.8**	**−37.2**	**−48.5**	**−53.4**	**−170.7**

Note: Due to rounding, sums may not correspond to totals shown.

6.2.1 Accelerating investment in commercial port facilities in Québec

With the maritime strategy, the government is seeking to make Québec an intermodal hub for cargo handling. It plans to do so by facilitating the establishment of a more efficient supply chain from the Québec's ports; this will be an important incentive for business establishment and expansion.

To this end, Budget 2015-2016 allocates $200 million over five years to accelerate investment in commercial port infrastructure.

☐ A new program to support the port and intermodal infrastructure projects dedicated to freight

Several maritime stakeholders have pointed out the need to invest in commercial port infrastructure so that they can more efficiently handle shipping that interconnects with road and rail networks.

However, it is often difficult for port entities[19] to independently assume the cost of developing new infrastructure and major repairs.

Budget 2015-2016 thus includes an allocation of $200 million over five years to accelerate investment in port and intermodal infrastructure projects dedicated to the transport of goods.

- Eligible expenses for government financial support will primarily cover dock repairs, some transshipment and intermodal transfer facilities, interfaces with ground networks, and space and storage facilities.
- Projects will be prioritized based mainly on their potential economic impact.

This allocation will offer significant leverage to projects with other partners, such as federal government port authorities, municipalities and the private sector.

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[19] Public commercial port infrastructures normally come under federal jurisdiction, municipalities, non-profit organizations or the Québec government.

This allocation is in addition to planned investments by the Québec government to improve road access to the Port of Montréal.

Budget 2015-2016 thus provides $26.2 million in additional funding over five years to the Ministère des Transports. For 2015-2016, the amounts will be drawn from the Contingency Fund.

TABLE B.62

Additional allocations to the Ministère des Transports
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Support port and intermodal infrastructure projects for the transportation of goods	0.3	1.6	3.9	7.5	12.9	26.2

6.2.2 Encourage the establishment of logistical hubs with support partner

The main advantages of a logistical hub are improved cargo handling and ability to reach markets faster and more efficiently.

With increased commercial trade, including container shipping, a logistical hub has become necessary to ensure that Québec is better positioned for international trade, particularly under the Comprehensive Economic and Trade Agreement between Canada and the European Union.

Consultations in recent months have revealed a real interest in the establishment of such infrastructures. They also demonstrated the possibility of developing several additional sites to meet the needs of different types of businesses and markets.

Budget 2015-2016 includes an allocation of $400 million to support the best projects for the establishment of logistical hubs in Québec, particularly in Montérégie.

Logistical hubs

A logistical hub is an area containing several modes of transportation and value-added activities. Its purpose is to ensure effective, fast and secure handling of a large flow of goods.

- Such a hub includes distribution centres; loading, unloading and storage facilities; and in some cases inventory management, order processing, assembly and labeling.

Québec is very well located in North America to host major logistical hubs. The Montérégie region, with its sites in Vaudreuil-Soulanges and Contrecœur, is particularly well positioned, as it has:

- highways 20, 30 and 40 and the main rail lines of Canadian National, Canadian Pacific and CSX;
- direct maritime access to the St. Lawrence, which is particularly favourable in the context of free trade with the European Union.

The development of logistical hubs in Québec will attract foreign investors by creating value-added distribution centers and will open new markets for Québec entrepreneurs.

☐ $300 million to support logistical hub projects

Budget 2015-2016 provides for the government to join with the Fonds de solidarité FTQ in setting aside an overall envelope of $300 million over five years to invest in partnerships with private and institutional investors in projects associated with logistical hubs, as follows:

- $200 million from the Québec government;
- $100 million from the Fonds de solidarité FTQ.

Since a number of sites offer specific advantages, the government has decided to engage in an open process together with the Fonds de solidarité FTQ that will allow private-sector investors to submit projects.

- In this way, the government will ensure that investment profits are maximized and respond to the actual needs of enterprises, in order to obtain the maximum leverage effect.

Types of projects that could benefit from the $300-million envelope

The logistical hub projects must involve setting up and combining basic logistical services, involving:

- road, rail or marine transport;
- loading, unloading and storage facilities;
- customs clearing and automated services.

The projects supported by the new funding may also include value-added components, such as inventory management, order fulfillment, assembly and labelling services.

Lastly, the proposals submitted by the promoters must include:

- specific project details (location, activities, partners, etc.);
- a financial structure, including the intended use of the $300-million envelope.

The government will have a minority interest in these projects.

The projects will be analyzed by a selection committee consisting of representatives of the government and the Fonds de solidarité FTQ on the following basis:

- expected return;
- leverage effect generated by the investment;
- potential wealth creation in Québec;
- increase in the efficiency of logistics and development of the maritime sector in Québec.

Proximity and support for the establishment of manufacturing activities will also be favoured.

To provide for the $200-million government envelope, an advance will be made to the Fonds du développement économique, as needed.

A major partner

Created in June 1983, the Fonds de solidarité FTQ is a development capital fund that calls upon the solidarity and savings of Québecers.

The main components of its mission are:

- to invest in companies that will have an economic impact in Québec and to provide them with services in order to contribute to their development and create, maintain or protect jobs;
- to stimulate the Québec economy through strategic investments;
- to inform and persuade workers of the need to save for their retirement.

As at November 30, 2014, the net assets of the Fonds de solidarité FTQ were valued at $10.5 billon. It is a partner, either directly or through a member of its network, to more than 2 450 enterprises, many of which work in sectors associated with logistics.

Moreover, the Fonds de solidarité FTQ wants to provide greater support for the development of the maritime sector and Québec's strategic infrastructures.

Involved in the maritime and logistics sector

As a partner in the development of logistical hub projects in Québec, the government will be able to benefit from the vast network of contacts of a major player, engaged in the economic development of Québec, and its expertise in the field.

The Fonds de solidarité FTQ has already established contacts with many Québec ports.

Moreover, it has partnered and is in contact with numerous enterprises involved in logistics, as well as different shipyards in Québec. It is likewise involved in projects focused on maritime infrastructures or associated with the fishing industry.

As an example, the Fonds de solidarité FTQ recently joined the majority Québec-owned consortium led by the Montréal firm Fiera Axium Infrastructure for the acquisition of Montréal Gateway Terminals (TMG), a company specialized in handling maritime containers being transported between international markets. This investment reflects the intention of the Fonds to support the maritime sector and the strategic infrastructures of Québec.

☐ $100 million over the next five years to respond to the infrastructure needs of logistical hub projects

Budget 2015-2016 reserves an envelope of $100 million over the next five years for developing public infrastructures associated with the installation of logistical hubs.

- This provision will complement the $300-million envelope provided for logistical hub projects.

For this purpose, supplementary appropriations of $0.4 million in 2017-2018, $2.6 million in 2018-2019 and $6.4 million in 2019-2020 will be granted to the Ministère des Transports du Québec.

6.2.3 Attract private investments by upgrading the logistical and port infrastructures of Québec

Industrial port areas allow for synergy between the various industrial sectors and offer comparative advantages to enterprises by linking them to the different regions producing raw materials and the different markets that make up the global economy.

By providing the conditions to support major industrial investments in the port sectors, the government seeks to assist the optimal use of port and logistics infrastructures. Thus, the government will contribute to stimulating exports, business start-ups and job creation in every region of Québec.

Budget 2015-2016 provides an envelope for action of $350 million over five years to the Economic Development Fund to promote the execution of industrial investment projects banking on Québec's logistics and port infrastructures.

- From this amount, $50 million is set aside over five years to support the development of shipyard activities.

Eligible manufacturing investment projects will be those for which:

- a location close to a port is a comparative advantage;
- industrial synergy is encouraged.

Investment projects eligible for financial support will include a number of sectors, such as shipyards, paper production, wood processing, agro-industry and food processing, chemicals, petrochemicals, machining and parts assembly (equipment manufacturing) and environmental technologies.

The funding of this initiative will come from amounts already available in the Ministère de l'Économie, de l'Innovation et des Exportations, as well as $52.5 million in additional appropriations that will be granted to this department over the next five years, i.e. $10.0 million in 2015-2016 and 2016-2017, $12.5 million in 2017-2018 and 2018-2019 and $7.5 million in 2019-2020.

☐ Decontamination of industrial sites near a port

As part of the maritime strategy, the government intends to facilitate the establishment of enterprises in Québec by reducing associated obstacles and delays.

— Achievement of this objective can be compromised by the lack of land available for industrial activities, due in particular to the presence of contaminants.

Port areas are ideal locations for enterprises because of their direct access to water transport of merchandise.

Accordingly, as a first step, the government will ensure that certain industrial sites located near port areas are rehabilitated.

— This work could result in investments by the Québec government of up to $100 million over the next five years.

Evaluation of other initiatives designed to facilitate the establishment of companies will be conducted as part of the maritime strategy.

6.2.4 Promote the development of maritime tourism

Development of tourism along the St. Lawrence constitutes an important aspect of the maritime strategy. In this area, the maritime strategy will support the development and enhancement of tourism offerings along the St. Lawrence. This will help make Québec tourism more attractive to visitors.

— Along these lines, the government recently launched its first initiative to implement the maritime strategy program – tourism section, with a $30 million envelope, and confirm its support for the Dalhousie project in Québec City.

Accordingly, Budget 2015-2016 provides for:

— support for cruise-ship tourism in Montréal and Québec City;

— an envelope for developing certain natural attractions of the St. Lawrence.

☐ $55 million to develop cruise-ship tourism in Montréal and Québec City

In order to continue the upgrading of facilities to accommodate international cruise ships, including the piers, Budget 2015-2016 provides for an additional investment envelope that could reach $55 million over the next five years, to contribute to financing two major projects in Montréal and Québec City whose total cost is estimated at close to $168 million.

In order to support cruise-ship infrastructure projects in Montréal and Québec City, additional appropriations of $0.9 million in 2017-2018, $6.5 million in 2018-2019 and $7.1 million in 2019-2020 will be granted to the Ministère du Tourisme.

■ Restoration of the maritime terminal and Alexandra pier in Montréal

As part of the celebrations of the 375th anniversary of Montréal, the government intends to offer the city legacies that will enable Montréal to consolidate its position as a renowned, highly-appreciated and preferred destination for international tourism.

Restoration of the maritime terminal and the Alexandra pier for tourists is a structuring project that fits this vision.

— In this respect, Budget 2015-2016 includes a maximum investment of $20 million over the next five years for this project, which also includes developments such as the construction of an observation tower, an interpretation centre and terraces at the Port of Montréal.

■ Expansion of the Ross Gaudreault cruise terminal in Québec City

The growing popularity of Québec City with international cruise ships generates major economic spinoffs for Québec. Accordingly, the government has set aside a maximum envelope of $35 million over the next five years to support the project to reconfigure and expand the Ross Gaudreault cruise terminal in Québec City, which will involve the construction of a second terminal.

— This project will solve current problems in passenger handling capacity, as well as support the projected growth in numbers of visitors.

☐ Develop certain natural tourist attractions

A number of the establishments of the Société des établissements de plein air du Québec (Sépaq) are well positioned to allow the use of the St. Lawrence for tourist development and job creation purposes in several Québec regions.

Thus, Budget 2015-2016 plans that the government will support investments of $21.6 million over the next five years to develop:

— establishments that have the potential to present an original offering of world-class tourist products;

— partnerships, with Ville de Montréal and the Société des traversiers du Québec.

For this purpose, additional appropriations of $0.1 million in 2015-2016, $0.7 million in 2016-2017, $1.2 million in 2017-2018 and $1.5 million in 2018-2019 and 2019-2020 will be granted to the Ministère des Forêts, de la Faune et des Parcs.

For 2015-2016, the amounts forecast will come from the Contingency Fund.

Details of this measure will be disclosed when Québec's maritime strategy is announced.

6.2.5 Extend the tax credit for the Gaspésie and certain maritime regions of Québec and improve it for Îles-de-la-Madeleine

The economic contribution of the marine products industry to the Gaspésie–Îles-de-la-Madeleine and other maritime regions is substantial. The enterprises in this sector are facing significant challenges from higher operating costs and increased foreign competition.

The economic development of Îles-de-la-Madeleine also represents a major challenge, given its remoteness from major urban centres and accessibility constraints due to its insularity. In addition to fisheries, the tourist industry largely contributes to creating wealth in the archipelago.

In terms of deploying the maritime strategy, the government confirms its intention to develop and diversify the industrial fabric of the Gaspésie–Îles-de-la-Madeleine and other maritime regions of Québec. Accordingly, Budget 2015-2016 provides for:

— the five-year extension of the refundable tax credit for the Gaspésie and certain maritime regions of Québec, i.e., until December 31, 2020;

— the eligibility of the tax credit for businesses in the recreo-tourism sector on Îles-de-la-Madeleine, starting in the 2015 calendar year, representing the government's recognition of their insular and maritime nature;

— an adjustment in the application procedures starting in 2016, to calculate the tax credit on salaries paid for all eligible activity sectors, at rates of 15% or 30%, subject to a per-job tax assistance ceiling of $12 500 or $25 000, as appropriate.

In addition to supporting job creation and preservation, this support will give businesses the financial leverage needed to invest in diversification and infrastructure development projects that will support the expansion of their activities.

Principal parameters of the tax credit

The following table presents the main parameters of the tax credit for the Gaspésie and certain maritime regions of Québec that will be applicable from the beginning of calendar 2016 until December 2020.

— The tourism segment becomes eligible for the tax credit beginning in calendar 2015. For this year, the applicable rate is 32% and calculated on eligible salaries paid.

TABLE B.63

Principal parameters of the tax credit for the Gaspésie and certain maritime regions of Québec – After the day of the 2015-2016 Budget Speech

Sectors of activity	Eligible territories	Rates and ceilings(1)
Marine products component		
– Transformation of fish products	– Gaspésie–Îles-de-la-Madeleine – Côte-Nord – La Matanie RCM	– 15% of eligible salaries paid – Per-job assistance ceiling of $12 500
– Sea farming and marine biotechnology products	– Gaspésie–Îles-de-la-Madeleine – Côte-Nord – Bas-Saint-Laurent	– 30% of eligible salaries paid – Per-job assistance ceiling of $25 000
Tourism component(2)		
– Recreo-tourism offer(3)	– Îles-de-la-Madeleine agglomeration	– 30% of eligible salaries paid – Per-job assistance ceiling of $25 000
Manufacturing component		
– Manufacturing activities	– Gaspésie–Îles-de-la-Madeleine	– 15% of eligible salaries paid(4) – Per-job assistance ceiling of $12 500
– Manufacture of wind turbines and wind energy production	– Gaspésie–Îles-de-la-Madeleine – La Matanie RCM	
– Manufacture of products from turf or slate	– Gaspésie–Îles-de-la-Madeleine – Côte-Nord – Bas-Saint-Laurent	

(1) These parameters are applicable starting in the 2016 calendar year.

(2) This component is eligible for the tax credit starting in calendar 2015, at a rate of 32%. For the following calendar years, the tax credit is applicable at a rate of 30% and is subject to a tax assistance ceiling of $25 000 per job.

(3) Includes businesses that offer tourist accommodations, businesses that conduct excursions or guided tours, businesses that lease outdoor equipment and businesses that operate recreational facilities likely to promote tourism (e.g., interpretation centres, museums, health clubs and equestrian centres).

(4) For calendar 2015 and previous, the tax credit is calculated based on the growth of the payroll of eligible employees.

☐ $17 million per year to acknowledge the distinctiveness of the Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent and Côte-Nord regions

The five-year extension of the tax credit for the Gaspésie and certain maritime regions of Québec will ultimately have a financial impact of more than $15 million per year.

As for the eligibility for the tax credit of the recreo-tourism sector on the Îles-de-la-Madeleine, the financial impact will ultimately reach about $2 million per year.

Altogether, this support will inject more than $17 million per year in the economy of the Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent and Côte-Nord.

TABLE B.64

Financial impact of the extension of the tax credit for the Gaspésie and certain maritime regions of Québec and the enhancement for Îles-de-la-Madeleine
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
5-year extension of the tax credit	—	−1.7	−14.5	−15.3	−15.6	−47.1
Enhancement of the tax credit for Îles-de-la-Madeleine	−0.2	−2.0	−2.0	−2.1	−2.1	−8.4
TOTAL	**−0.2**	**−3.7**	**−16.5**	**−17.4**	**−17.7**	**−55.5**

6.2.6 Support research and innovation

One of the objectives of the Québec government is to promote the growth of Québec's maritime economy while maintaining the residents' quality of life and protecting the integrity of river and marine ecosystems.

To this end, the Québec government intends to promote the acquisition of knowledge and the adoption of the most innovative marine practices and technologies by supporting:

- the development of the maritime research network in Québec;
- research and knowledge acquisition to promote the development of emergency environmental plans;
- applied research and innovation.

☐ $3.3 million for development of the maritime issues research network in Québec

As part of the maritime strategy, the government will support the creation of the first Québec-wide research network specializing in maritime issues.

- The Institut pour la recherche et l'innovation du secteur maritime, established by France and Québec, is the first international collaboration the network will take part in.

Budget 2015-2016 provides an envelope totalling $3.3 million for the next three years for the development of the research network dedicated to maritime issues in Québec.

- For this purpose, supplementary credits of $1.1 million in 2015-2016, 2016-2017 and 2017-2018 will be granted to the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche.

☐ $3.4 million for research and knowledge acquisition to promote the development of environmental emergency plans

Even when best practices are applied, maritime transport presents certain risks. Thorough knowledge of the possible environmental impacts is essential for municipal and governmental authorities to prepare adequate emergency plans.

As part of the maritime strategy, the government will provide support for the acquisition of environmental knowledge, expertise and municipal and governmental decision-making for emergency preparations and interventions on the local, regional and provincial scale in the event of hydrocarbon spills in Québec marine environments.

Support from the government will total $3.4 million over the next five years:

- $0.6 million will come from amounts available in existing programs overseen by the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques;
- additional credits of $2.8 million over five years will be granted to the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques, consisting of $0.6 million in 2015-2016, $0.7 million in 2016-2017 and 2017-2018, $0.5 million in 2018-2019 and $0.3 million in 2019-2020.

For 2015-2016, the projected sums will be drawn from the Contingency Fund.

Government funding may be supplemented by contributions from partners.

❑ $9 million for applied research and innovation in the maritime sector

Applied research and innovation are essential drivers of increased competitiveness in Québec businesses in the maritime sector.

In this respect, in Budget 2014-2015, the government granted $0.8 million to support two institutions that are renowned in the field of marine biotechnologies:

— the Centre de recherche sur les biotechnologies marines in Rimouski;

— the Institut des sciences de la mer in Rimouski.

For the maritime strategy, Budget 2015-2016 provides additional support of nearly $8.3 million over five years for applied research and innovation, particularly in the field of marine biotechnologies.

The maritime strategy therefore has an envelope of nearly $9.1 million over the next five years to support applied research and innovation, including research conducted through partnerships with private enterprise.

— This envelope will come from the Ministère de l'Économie, de l'Innovation et des Exportations budgets devoted to applied research and knowledge and technology transfer.

6.2.7 Supporting the maritime sector with key initiatives

To foster strong and sustainable development in the maritime industry as a whole, the government will support initiatives to respond to particular issues. Accordingly, Budget 2015-2016 includes interventions totalling $70 million over five years to:

- improve the efficiency of maritime transport;
- develop the commercial fishery and aquaculture industry;
- develop exports;
- develop the workforce.

☐ $35 million to improve the efficiency of maritime transport

The development of more efficient modes of goods and passenger transport that reduce greenhouse gas (GHG) emissions is one of the government's objectives.

As part of the maritime strategy, the government will specifically support:

- intermodal transport solutions that include maritime transport;
- the development of short-distance maritime transport;
- investments allowing cruise ships to connect to the local electricity network for power when docked;
- the construction of ships fuelled by liquefied natural gas.

To this end, the Programme visant la réduction ou l'évitement des émissions de GES par le développement du transport intermodal and the Programme d'aide à l'amélioration de l'efficacité du transport maritime, aérien et ferroviaire en matière de réduction de GES may jointly contribute up to $35 million to the maritime strategy.

- This envelope, managed by the Ministère des Transports, will be financed by the Green Fund.

❑ $15 million over three years for the development of the commercial fishery and aquaculture industry

The economy and employment in many coastal regions rely in part on activities related to the use and transformation of fish resources.

As part of the maritime strategy, the government will support the initiatives of the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation to promote the development of the commercial fishery and aquaculture sectors.

Accordingly, Budget 2015-2016 provides a total of $15 million for this purpose over the next three years.

— These amounts will be set aside from the existing budgets of the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation.

The details of these initiatives will be revealed when the maritime strategy is announced.

❑ $5 million over five years for export development

The achievement of the maritime strategy's objectives is based in part on the ability to enhance the international reputation of products and know-how developed by Québec businesses and research institutions.

Therefore, as part of the maritime strategy, the government will commission Export Québec to identify initiatives that will allow Québec businesses, centres of excellence and research centres associated with the maritime sector to expand into foreign markets, find technological partners or form an international alliance that will lead to economic spinoffs for Québec.

To achieve this, Export Québec will develop a strategy targeting the main territories where the international implementation of the maritime strategy should be concentrated.

Budget 2015-2016 therefore calls for the government to set aside an envelope totalling $5 million over five years. This envelope will be drawn from the amounts available in the Ministère de l'Économie, de l'Innovation et des Exportations export programs.

☐ $15 million over five years for workforce development

The implementation of the maritime strategy will result in a need for specialized workers. New workforce training and development initiatives will have to be established.

Over the next five years, the government will concentrate its efforts on supporting training in trades in the sectors of the maritime economy with the most growth potential and on meeting the needs of industries.

To this end, Budget 2015-2016 calls for Emploi-Québec to support the implementation of training and competency development activities with a contribution totalling $15 million over the next five years.

— These amounts will be drawn from existing funds and programs overseen by the Ministère du Travail, de l'Emploi et de la Solidarité sociale, specifically the Workforce Skills Development and Recognition Fund.

The details of this initiative will be revealed when the Québec maritime strategy is announced.

6.2.8 Coordinating government action

The government intends to ensure that investment projects are evaluated using objective criteria, so that they have the greatest possible impact on long-term growth. The most structuring and job-creating projects will be prioritized.

Furthermore, given that a number of departments will be involved in the maritime strategy, the government will ensure that actions are coordinated and complementary, to maximize synergies.

The government will therefore entrust new mandates to the Secrétariat à l'implantation de la stratégie maritime, which is part of the Ministère du Conseil exécutif. The Secrétariat, which is currently coordinating the development of the strategy, will be in charge of:

— recommending, over the course of the next year, priority projects for implementation, such as regional development projects in the maritime sector, based on ministerial analyses;

— identifying, among these projects, those that should be recommended to the federal government, in particular for inclusion in the 2014-2024 Building Canada plan.

To assist the Secrétariat, the government will set up an interdepartmental committee that will be chaired by the Secrétariat and that will include representatives from the Ministère de l'Économie, de l'Innovation et des Exportations, the Ministère des Affaires municipales et de l'Occupation du territoire, the Ministère des Transports and the Ministère des Finances.

— The other departments involved, in particular those that will benefit from supplementary budgets as part of the maritime strategy, will be asked to contribute to the committee's work.

The committee will have an envelope of $1.5 million in 2015-2016 to meet its priority needs for strategic information in the short term, which will allow the government to launch the maritime strategy.

To this effect, additional credits totalling $1.5 million will be granted to the Ministère du Conseil exécutif from the Contingency Fund in 2015-2016.

6.3 Promote entrepreneurial succession

Entrepreneurs are essential players in the economic development of Québec. They are widely recognized as creators of wealth. Entrepreneurs must be an integral part of the solutions considered to respond to the challenges of business development.

In light of this, the government intends to support and advise current and future entrepreneurs in the expansion of their businesses and in their business transfer transactions by providing additional support for business successors and mentoring.

Tax relief will also be granted on the transfer of a business between related persons in the primary and manufacturing sectors, in order to promote family business successions.

Budget 2015-2016 therefore devotes $51 million over the next five years to initiatives designed to promote business succession.

TABLE B.65

Financial impact of measures to promote business succession
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Additional support for business successors and mentoring	−2.0	−2.0	−2.0	—	—	−6.0
Tax relief for business transfers between related persons in the primary and manufacturing sectors	—	—	−15.0	−15.0	−15.0	−45.0
TOTAL	**−2.0**	**−2.0**	**−17.0**	**−15.0**	**−15.0**	**−51.0**

6.3.1 Tax relief for business transfers between related persons in the primary and manufacturing sectors

In order to encourage the transfer of family businesses, based on the recommendations of the Québec Taxation Review Committee, Budget 2015-2016 calls for the implementation of tax relief for business transfers between non-arm's length people.

☐ An integrity rule that penalizes some taxpayers

Currently, taxpayers are eligible for advantageous tax treatment on capital gains realized from the sale of shares of an eligible corporation:

- a cumulative lifetime capital gains exemption of up to $813 600 for the sale of qualifying small business shares or $1 million for the sale of a farm or fishing business;
- taxation on 50% of the value of the capital gains.

In the case of business transfers between related persons, however, the legislation includes an integrity rule that prevents the seller from benefitting from these tax advantages.

- Without this rule, some taxpayers would be able to sell their businesses to family members solely to take advantage of beneficial tax treatment on the capital gains.

☐ A problem that affects entrepreneurs all across Canada

This problem is not unique to Québec. All Canadian entrepreneurs face this situation.

- In fact, Québec, like the other provinces, has harmonized its tax treatment of business transfers between non-arm's length individuals with the federal government.

In Budget 2015-2016, the Québec government is taking the first step to solve this problem and will make adjustments to grant tax relief for business transfers between family members, similar to that offered for other types of business transfer.

Québec will also call on the federal government to find a solution to this tax problem for Québec entrepreneurs.

☐ Promote business transfers while preserving the integrity of the tax system

The taxpayers eligible for tax relief will have to be owners of a business that operates mainly in the primary and manufacturing sectors.

With regard to eligibility for this tax relief, the government will continue to work in the coming year to identify eligibility criteria that will make it possible to restrict the relief solely to legitimate business transfers. These criteria will be clarified by the time Budget 2016-2017 is unveiled.

The tax relief will apply to transfers that take place starting January 1, 2017. The expected financial cost of this measure for the government is estimated at $15.0 million annually.

TABLE B.66

Financial impact of the tax relief for business transfers between related persons in the primary and manufacturing sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax relief for business transfers between related persons in the primary and manufacturing sectors	—	—	−15.0	−15.0	−15.0	−45.0

Recommendations of the Committee concerning the issue of business transfers between related persons

In its report, the Québec Taxation Review Committee recommends that the government consider three solutions for business transfers between related persons:

- arrange with the federal government for the sale of a parent's business to a child to be eligible for the cumulative capital gain exemption, under certain specific conditions;
- take action without the federal government and correct the situation solely with respect to Québec taxes, under certain specific conditions;
- grant all businesses the special treatment granted to businesses in the farm and fishing sector.

6.3.2 Additional support for business successors and mentoring

Entrepreneurial succession is a major challenge for Québec. All analyses confirm that a large number of entrepreneurs and business owners will be retiring in the next ten years. At this time, it is estimated that some 50 000 entrepreneurs in Québec are 55 years old or older.

Maintaining business ownership and jobs in all regions of Québec is therefore a serious issue.

Furthermore, if Québec wants to accelerate its economic growth, break into promising economic sectors and meet the challenge of international competition, it will need to develop and prepare a great many business successors.

❑ $6 million to assist business successors

Budget 2015-2016 provides for investments of $2 million per year over the next three years, in order to:

- extend to all regions the business transfer services offered by the Centre de transfert d'entreprises du Québec (CTEQ);
- strengthen mentoring services for business successors by financing the Réseau M 2.0 project of the Fondation de l'entrepreneurship.

Through these investments, the government will stimulate individual and group entrepreneurship through strengthened specialized services, in particular with respect to business transfers and mentoring.

In collaboration with the CTEQ, a bank of transferors and buyers will be created to facilitate the transfer of individual and collective businesses, while simultaneously promoting continued Québec ownership of businesses and the protection of jobs in all regions of Québec.

Moreover, the Ministère de l'Économie, de l'Innovation et des Exportations will join with the Fondation de l'entrepreneurship to develop a technological platform to promote networking and training activities to connect business mentees and mentors. The Réseau M 2.0 technological platform will support a network of some 1 600 mentors and 4 500 business mentees.

For this purpose, additional credits of $2 million per year over the next three years will be granted to the Ministère de l'Économie, de l'Innovation et des Exportations.

6.4 Develop our natural resources

Natural resources are a source of collective wealth. Their development contributes to the economic development of Québec as well as the creation of jobs in all regions.

As such, Budget 2015-2016 provides measures that will contribute to:

- the development of the Plan Nord;
- improved support for mining exploration;
- the availability of energy as a tool for economic development;
- ensure the transparent development of our natural resources;
- the enhancement of the value of Québec's forest sector and wildlife resources.

These actions represent an additional cost of $26 million over the next five years.

TABLE B.67

Financial impact of measures for develop our natural resources
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Development of the Plan Nord	—	—	—	—	—	—
Improved support for mining exploration	−4.6	−4.8	−4.8	−0.3	−0.3	−14.8
Availability of energy as a tool for economic development	—	—	—	−1.1	−3.8	−4.9
Ensure the transparent development of our natural resources	—	—	—	—	—	—
Enhancement of the value of Québec's forest sector and wildlife resources	−2.5	−0.9	−0.9	−0.9	−0.9	−6.1
TOTAL	**−7.1**	**−5.7**	**−5.7**	**−2.3**	**−5.0**	**−25.8**

6.4.1 Development of the Plan Nord

The potential for wealth creation in northern Québec is both large and diversified. Business opportunities are numerous and the potential for growth is substantial.

For the government, the development of the Plan Nord constitutes an important component of the Québec Economic Plan.

Over the past year, the government has released nearly $75 million from the Fonds du Plan Nord to implement promising and strategic initiatives to develop and access the territory. These include:

- execution of the first phase of a study on a new rail link to improve access to the Labrador trough;
- extension of route 167 to the Otish Mountains;
- reconstruction of the James Bay route.

To date, the continuation of interventions to support the development of the Plan Nord has turned out to be a wise choice that promises to bring greater prosperity to Québec.

- This was one of the conclusions drawn by the annual global study of mining industry executives recently published by the Fraser Institute, which pointed out that the Plan Nord is one of the factors that has helped move Québec from 18th place to 6th place in the world in terms of its appeal to mining investors.[20]

Supported by these results, Budget 2015-2016 calls for the continuation of efforts already underway to promote the development of northern Québec and its resources. For this purpose, an envelope of $425 million is currently planned for the next five years for the Fonds du Plan Nord.

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[20] FRASER INSTITUTE, *Survey of Mining Companies – 2014*, February 2015.

❑ Launch of a new government corporation on April 1, 2015

With adoption of its act of incorporation on December 5 last year, the Société du Plan Nord will begin operations on April 1, 2015.

The new government corporation, which will coordinate the implementation of the governmental guidelines for the Plan Nord with a view to a sustainable development, will be mandated to:

- contribute to the maximization of the economic spinoffs generated by the natural resources in Plan Nord territory;
- coordinate the construction of infrastructures and, where necessary, install or operate them, alone or in partnership;
- support local and Aboriginal communities in their development projects;
- help implement mechanisms to dedicate, by 2035, 50% of the Plan Nord territory to non-industrial uses, in order to protect the environment and safeguard biodiversity.

It will also establish the Bureau de commercialisation with the goal of maximizing the economic spinoffs of the Plan Nord by publicizing among Québec firms the supply and equipment needs of the prime contractors operating north of the 49th parallel.

■ The vision behind the development of the Plan Nord will be made public shortly

The government will soon release the details of its vision for the development of the Plan Nord and, more specifically, the guidelines that will help define the objectives and action priorities of the Société du Plan Nord.

An action plan covering the period from 2015-2016 to 2019-2020 will specify:

- the priority initiatives that will be implemented over the next five years, in accordance with the objectives pursued and priorities established;
- the allocation of the five-year envelope made available to the Société du Plan Nord from the Fonds du Plan Nord.

❑ The Fonds du Plan Nord – A fund dedicated to the development of northern Québec

Starting April 1, 2015, the Fonds du Plan Nord will be assigned to financing the activities of the Société du Plan Nord and the selected priority initiatives.

The sums from the Fonds du Plan Nord that are handed over to the new government corporation will be used to develop the economic, environmental and social dimensions of the north, specifically by:

— financing strategic infrastructures and facilitating the development of and access to northern Québec;

— implementing measures dedicated to the development and protection of the Plan Nord territory;

— supporting knowledge acquisition and research and development;

— putting in place social and community measures to meet the needs of local and Aboriginal residents.

■ Income sources of the Fonds du Plan Nord

The Fonds du Plan Nord will mainly be funded by an annual endowment drawn from tax spinoffs stemming from investment projects carried out north of the 49th parallel.

— Added to this will be a $10 million annual contribution from Hydro-Québec.

Funding for the Fonds du Plan Nord will be reviewed annually to reflect changes in the projects undertaken in Plan Nord territory and the resulting tax revenues.

— This approach will enable the government to align the pace of its interventions with the progress of the economic activity undertaken in the territory.

The 2015-2016 endowment for the Fonds du Plan Nord

The budget presents the 2015-2016 endowment for the Fonds du Plan Nord.

This endowment was determined on the basis of the latest data available on investment projects underway or planned in the Plan Nord territory.

On the basis of these investments, the tax spinoffs have been calculated to establish the endowment for the Fonds du Plan Nord. For the period from 2015-2016 to 2019-2020, the total endowment has been set at $361.1 million.

— The 2015-2016 endowment is $77.4 million, or $5.7 million less than projected in the last budget.

By adding revenues from other sources to this annual endowment, over the period from 2015-2016 to 2019-2020, the Fonds du Plan Nord should benefit from a total envelope of $425.4 million.

TABLE B.68

Revenues of the Fonds du Plan Nord – 2015-2016 to 2019-2020
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Endowments	77.4	74.0	74.6	64.5	70.5	361.1
Contributions from Hydro-Québec[1]	10.0	10.0	10.0	10.0	10.0	50.0
Other revenues	1.3	1.4	3.9	3.9	3.9	14.3
TOTAL	**88.7**	**85.3**	**88.5**	**78.4**	**84.4**	**425.4**

Note: The amounts have been rounded so their sum may not match the totals shown.
(1) Starting in 2017, the amount paid annually by Hydro-Québec will be set by the government.

Financial framework of the Fonds du Plan Nord

Over the next five years, the projected revenues of the Fonds du Plan Nord should essentially serve to:

- finance the activities of the Société du Plan Nord, the measures it will support and its investments, in the amount of $356.7 million;
- support the management fees of the Fonds du Plan Nord and the financial impacts of the $20.6 million loan to Stornoway Diamonds to extend Route 167 further north.

On this basis, a balance of $48.2 million is projected for the Fonds du Plan Nord over the period from 2015-2016 to 2019-2020.

To monitor the financial balance sheet of the Fonds, however, the government has adopted a 25-year horizon. Choosing this horizon allows to:

- adequately plan the use of the funds available to the fund, given that the financing of certain infrastructure projects will generate expenditures extending over decades;
- balance the expenditures of the fund as a function of its projected revenues, since it cannot post a deficit on a cumulative basis.

The projected balance for the next five years will therefore be kept in the Fonds du Plan Nord and used to support long-term commitments resulting from infrastructure projects currently underway.

- Over a 25-year horizon, the fund is balanced.

TABLE B.69

Financial framework of the Fonds du Plan Nord – 2015-2016 to 2019-2020
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total 5 years	Horizon 25 years
Revenues	**88.7**	**85.3**	**88.5**	**78.4**	**84.4**	**425.4**	**2 686.1**
Expenses	**81.5**	**80.6**	**77.2**	**61.4**	**76.6**	**377.2**	**2 684.8**
– Contributions from the Société du Plan Nord	78.8	73.1	71.8	58.9	74.2	356.7	2 648.8
– Other expenses	2.8	7.5	5.4	2.5	2.4	20.6	36.0
BALANCE	**7.2**	**4.7**	**11.4**	**17.0**	**7.9**	**48.2**	**1.3**

Note: The amounts have been rounded off so their sum and their difference may not match the totals shown.

The use of the funds made available to the Société du Plan Nord will be explained in detail in the government's 2015-2020 action plan, which will be made public by the Minister of Energy and Natural Resources and Minister responsible for the Plan Nord.

Tax spinoffs used to establish the endowment for the Fonds du Plan Nord

Investments of more than $50 billion by 2035

By 2035, public and private investments totalling more than $50 billion are projected for the Plan Nord territory.

Only investments associated with projects undertaken after the creation of the Fonds du Plan Nord and those with sufficiently advanced plans have been considered in the calculation of the tax spinoffs used to determine the endowment for the fund.

Investments of $16.3 billion taken into consideration to establish the 2015-2016 endowment for the Fonds du Plan Nord

To calculate the tax spinoffs used to determine the endowment for the Fonds du Plan Nord, investments totalling $16.3 billion were considered:

- $10.5 billion for mining projects;
- $4.9 billion for Hydro-Québec projects;
- $0.9 billion for public infrastructure projects.

The global economic environment has pushed a revision of these investments down by nearly $2.0 billion in relation to those used to establish the 2014-2015 endowment, announced in Budget 2014-2015.

- This decline is mainly due to a $1.7 billion reduction in projected mining investments due to changes in metal prices.

Tax spinoffs used to establish the endowment for the Fonds du Plan Nord (cont.)

Tax spinoffs estimated at more than $2.2 billion by 2035

Based on the economic activity anticipated by 2035 in Plan Nord territory, the tax spinoffs devoted to the fund should reach $2.2 billion, or $171 million more than those projected in the last update.

- This increase is mainly attributable to projections of increased labour needs by certain mining companies to operate their mines.

Overall, over a 25-year period, the increase in tax spinoffs resulting from the increased needs for labour in the mining sector more than offsets the reduction in short-term spinoffs associated with reduced investments.

Investments and tax spinoffs devoted to the Fonds du Plan Nord
(millions of dollars)

	Investments	Tax spinoffs devoted to the Fonds du Plan Nord	
	2011-2035 25-year period	2015-2020 Five-year Plan	2011-2035 25-year period
Budget 2015-2016	16 255	361.1	2 233.8
Budget 2014-2015	18 250	383.8	2 063.3
DIFFERENCE	**−1 995**	**−22.7**	**170.5**

6.4.2 Improved support for mining exploration

The mining sector is a pillar of Québec's economic development. Despite a decline in mining investments in recent years, resulting mainly from the fall in metal prices, investments in Québec in 2014 remained above $3 billion, a historically high level.

The reduction of exploration investments has been felt more strongly, however. To position Québec to profit from the likely recovery of metal prices, Budget 2015-2016 provides various measures to promote mining exploration, such as:

- one-year postponement of the increase in the pricing of mineral titles;
- two-year reduction of the minimum cost of works to be carried out on a claim;
- renewal of the mandate of the Société d'investissement et de diversification de l'exploration minière (SIDEX);
- extension of the SIDEX Action-Terrain program;
- improvement of geoscientific knowledge about the Plan Nord territory;
- increased support for research in the reuse of mine tailings and the responsible development of the mining industry;
- expansion of the definition of exploration expenses to include certain expenses associated with environmental studies and community consultations.

TABLE B.70

Financial impact of the improved support for mining exploration
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**	**Total**
One-year postponement of the increase in the pricing for mineral titles	−0.5	−0.5	−0.5	−1.5
Two-year reduction of the minimum cost of work to be carried out on a claim	—	—	—	—
Renewal of the SIDEX mandate	—	—	—	—
Extension of the SIDEX Action-Terrain program	—	—	—	—
Improvement of geoscientific knowledge about the Plan Nord territory	−3.0	−3.0	−3.0	−9.0
Support for research on the reuse of mine tailings	−0.5	−0.5	−0.5	−1.5
Responsible development of the mining industry	−0.5	−0.5	−0.5	−1.5
Expansion of the definition of exploration expenses to include certain expenses associated with environmental studies and community consultations	−0.1	−0.3	−0.3	−0.7
TOTAL	**−4.6**	**−4.8**	**−4.8**	**−14.2**

☐ One-year postponement of the increase in the pricing of mineral titles

In an effort to allow mining companies to devote more resources to exploration work and contribute to the development of the mining sector, Budget 2015-2016 provides for a one-year postponement of the increase in the pricing of mineral titles that was scheduled for 2015, and a more progressive coming into force.

— Claim registration and renewal fees will be increased by 8% on January 1, 2016 and January 1, 2017. This measure replaces the 16% increase that was scheduled for 2015.

— The rents for leases to mine surface mineral substances and peat will be increased by 6% on January 1, 2016 and January 1, 2017. This measure replaces the 12% increase that was scheduled for 2015.

The other pricing linked to claims and surface mineral substance mining leases will be increased in the same way. However, the rent for mining leases will not be increased, given that the companies involved already contribute through the mining tax.

The one-year postponement of the increase in the pricing of mineral titles will have a financial impact of $500 000 annually, for the next three years.

In this respect, the Minister of Energy and Natural Resources will shortly be presenting amendments to the *Regulation respecting mineral substances other than petroleum, natural gas and brine*.

Claim registration and renewal fees

In Québec, a company that wishes to conduct exploration work must obtain a claim that grants it an exclusive right of exploration on a given territory for a period of two years.

Claim registration and renewal fees
(dollars)

Area of the land subject of a claim	January 1, 2014	January 1, 2015	January 1, 2016	January 1, 2017
North of 52 degrees latitude				
Less than 25 hectares (ha)	28.00	28.25	30.50	33.00
From 25 to 45 ha	101.00	102.00	110.00	119.00
From 45 to 50 ha	113.00	114.00	123.00	133.00
More than 50 ha	127.00	128.00	138.00	149.00
South of 52 degrees latitude				
Less than 25 ha	28.00	28.25	30.50	33.00
From 25 to 100 ha	54.75	55.25	59.75	64.50
More than 100 ha	82.75	83.75	90.50	97.75

Source: Ministère de l'Énergie et des Ressources naturelles.

Improvement of the business context in the mining sector

Since 1997, the Fraser Institute has been conducting annual surveys of mining companies worldwide to assess how mineral endowments and public policy factors affect exploration investment. Based on the data collected, the Fraser Institute rates jurisdictions according to:

- evaluation of the gross mineral potential of jurisdictions;
- attractiveness of investments as a function of public policies applicable to the sector;
- appreciation of the mineral potential of jurisdictions, given the regulation in force governing exploration.

According to the index, which combines the perception of respondents of government policies and mining potential, Québec rose to 6th place in the world in 2014.

- This result is a clear improvement compared to the 2013 edition, when Québec was ranked 18th.

According to the investment intentions of mining companies, investments in exploration and development should reach $379 million in 2015, which is an increase of 39.2% compared to 2014, thus reflecting the improvement in the business context.

World rating of various jurisdictions according to global attractiveness potential(1)

Jurisdiction	2014	2013	2012-2013	2011-2012
Finland	1/122	4/112	2/96	10/93
Saskatchewan	2/122	7/112	8/96	3/93
Nevada	3/122	2/112	3/96	6/93
Manitoba	4/122	13/112	19/96	15/93
Western Australia	5/122	1/112	4/96	5/93
Québec	6/122	18/112	11/96	2/93

(1) Investment attractiveness index according to mining potential, reflecting exploration regulations.
Source: FRASER INSTITUTE, *Survey of Mining Companies – 2014*, February 2015.

☐ Reduction for two years of the minimum cost of work to be done on a claim

A mining company holding a claim is required to perform work on the land where it holds a claim; if it fails to do so, its claim will not be renewed.

— Since a claim is valid for two years, the holder has two years to perform work for a minimum cost.

— The minimum cost of work to be performed, for each validity period of a claim, varies between $48 and $3 600, depending on the surface area of the land covered by the claim, the number of validity periods of the claim and its geographic location.

To allow exploring companies to devote their resources to the most promising claims, Budget 2015-2016 provides for the minimum cost of work that must be performed by a claimholder to be reduced by 35% for a period of two years, starting in 2015.

— This measure represents savings for exploring companies of $8 million over the next two years. They will thus be able to perform more work on their most promising sites.

In order to implement this measure, the Minister of Energy and Natural Resources will soon present amendments to the *Regulation respecting mineral substances other than petroleum, natural gas and brine*.

☐ Renewal of the mandate of the Société d'investissement et de diversification de l'exploration minière

The Société d'investissement et de diversification de l'exploration minière (SIDEX), founded in 2001, is a joint initiative between the Québec government and the Fonds de solidarité FTQ.

SIDEX has these mandates, among others:

- invest in the enterprises involved in mining exploration in Québec in order to diversify the mineral inventory of Québec;
- stimulate exploration investments at existing mining camps that demonstrate a possibility of interesting diversification;
- open new territories, where there is a strong potential for discoveries, to exploration and investment;
- promote the development of mining expertise and the emergence of new entrepreneurs.

In order to execute its mission, SIDEX was awarded a pooled fund of $50 million by the Québec government and the Fonds de solidarité FTQ:

- $35 million from the Québec government;
- $15 million from the Fonds de solidarité FTQ.

■ SIDEX achievements

After 15 years of existence, SIDEX has a very positive track record. Since its founding, SIDEX has generated numerous spinoffs for the mining exploration industry in Québec, while diversifying the mineral portrait of several regions.

SIDEX interventions have helped finance more than 214 exploration projects on behalf of 120 companies.

- As at December 31, 2014, SIDEX invested more than $85 million to finance junior exploration projects.
- These results demonstrate the expertise acquired by SIDEX and the extent of its involvement in the mining sector.

Moreover, SIDEX has, throughout its mandate, contributed actively to the economic development of resource regions and Québec as a whole. In fact, it has contributed directly to the great majority of recent discoveries of deposits in Québec, generating major economic spinoffs.

SIDEX is pursuing its efforts to diversify the mineral potential of Québec and promote the exploitation of mineral resources on the Plan Nord territory.

Renewal of SIDEX's mandate until 2025

In establishing SIDEX, the government had created a tool that directly supports the mining exploration industry in response to the challenges facing the Québec mining industry, specifically:

- an unfavourable metals market;
- the lack of financing for junior exploration companies;
- a need to diversify the substances extracted.

Over the years, SIDEX has proven to be an essential link in the chain of financing exploration activities in Québec and has greatly contributed to the diversification of the mineral potential of Québec. However, SIDEX's mandate, which was renewed in 2009 for a term of 8 years, will expire in March 2017.

Since SIDEX has fulfilled its mandate, and in order to maintain and improve government support for mining enterprises, the government and the Fonds de solidarité FTQ confirm the renewal of SIDEX's mandate for a term of 8 years, i.e. until 2025.

Extension of SIDEX's Action-Terrain program

SIDEX's Action-Terrain program was introduced in 2014, with the objective of making a maximum financing of $100 000 quickly available to junior companies for exploration projects planned in 2014.

Given the requests from industry players, the government, in collaboration with SIDEX, announces the extension of the Action-Terrain program for 2015.

To this end, SIDEX has set aside a total envelope of $3 million for 2015. This envelope will make it possible to offer financial support to over 30 junior exploration companies and promote the development of mineral potential in Québec.

In doing so, the government responds to problems experienced by junior exploration companies and continues to encourage the mineral diversification of Québec.

The terms of the program will be announced by SIDEX in the weeks to come.

❑ Improvement of geoscientific knowledge on the Plan Nord territory

The government has committed to reach 20% of protected areas on the Plan Nord territory by 2020, and to see that 50% of the Plan Nord territory is exempt from industrial activity by 2035.

In order for the mineral potential to be part of all the elements to be considered in managing the protected areas, it is vital that geological knowledge of these territories be improved.

The Ministère de l'Énergie et des Ressources naturelles already allocates $8 million annually to geoscientific studies on the Plan Nord territory to better characterize Québec's bedrock.

For Budget 2015-2016, the government agrees to improve investments in bedrock characterization work conducted by the Ministère de l'Énergie et des Ressources naturelles on the Plan Nord territory by $3 million per year for the three next years.

— These amounts will be financed from the mining heritage component of the Natural Resources Fund.

❑ Support for research on the reuse of mine tailings

In order to stimulate research on the reuse of mine tailings, Budget 2015-2016 will be adding a research niche on the reuse of mine tailings to the Programme de recherche en partenariat sur le développement durable du secteur minier of the Fonds de recherche du Québec – Nature et technologies.

— The amount allocated to this niche, a maximum of $500 000 per year over three years, will be financed from the mining heritage component of the Natural Resources Fund.

Treatment of mine tailings helps reduce the environmental footprint of the mining industry by reducing surface deposits of tailings. It also helps optimize the economic potential of mineral substances.

In 2013, the *Regulation respecting industrial depollution attestations* was amended to collect duties on mine tailings deposited in an accumulation area.

— This regulation is an incentive for mining companies to reduce their mine tailings by reengineering their processes and reuse them safely.

❑ Responsible development in the mining industry

Budget 2015-2016 stipulates that the Ministère de l'Énergie et des Ressources naturelles will collaborate with the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques to analyze the potential of the metal sectors on a Québec-wide scale and establish an environmental and socioeconomic portrait of the mining industry using the "life cycle analysis approach" of the metals.

These initiatives will allow in particular for the implementation of measures to improve the performance of metal recycling and guide mining companies in their renewable energy choices.

Furthermore, the Ministère de l'Énergie et des Ressources naturelles will work with Écotech Québec – Québec Cleantech Cluster and MISA, a network of mining innovation experts, to find innovative solutions for the technological problems facing mining companies.

To ensure the responsible development of the mining industry, an amount of $500 000 per year, financed directly by the mining heritage component of the Natural Resources Fund, will be devoted to these various initiatives over the next three years.

❑ Expansion of the definition of exploration expenses to include certain expenses related to environmental studies and community consultations

Budget 2015-2016 stipulates that the government will expand the definition of exploration expenses, for the purposes of the tax regime, to include certain expenses related to the environmental studies and community consultations that are necessary to obtain an exploration permit.

— This expansion will have an impact on the exploration expenses that are eligible for the exploration allowance under the mining tax regime, the flow-through share regime and the resource tax credit.

Currently, exploration expenses include in particular expenses incurred to determine the existence, location, size or quality of a mineral resource or an oil or natural gas deposit.

Under the expanded definition, it will be easier for companies to finance these studies and consultations, which will ensure a better understanding of the environmental issues, as well as greater social acceptance of mining projects.

The expansion of this definition represents tax relief of approximately $300 000 per year for the mining companies.

6.4.3 Making energy available as an economic development tool

The development of energy resources constitutes a profitable investment that allows us to better protect the environment. Access to energy resources that cause less pollution and are favourably priced, such as hydroelectricity and natural gas, is a lever for economic development.

In Québec, more than half of the total energy comes from electricity and natural gas. To encourage economic development from these energy sources, Budget 2015-2016 calls for:

— the evaluation of the natural gas potential in the Gaspésie;

— the extension of the natural gas distribution network;

— an accelerated capital cost allowance for assets used in the natural gas liquefaction process.

These measures are in addition to the implementation of the economic development rate.

— In its decision regarding the 2015-2016 rate application, which was made public on March 9, 2015, the Régie de l'énergie approved the pricing regulations related to this new rate.

Economic development rate

The economic development rate is intended for new projects that support economic development and have significant electricity needs.

Each project will be evaluated by Hydro-Québec in collaboration with government stakeholders and will particularly take into account the economic impact generated in Québec.

The economic development rate consists of a 20% reduction compared to the regular applicable rate. The rate discount granted will apply to new loads with maximum required power of at least 1 megawatt and electricity costs representing at least 10% of total operating costs.

- In the case of a company that already has an account, the additional load must, in addition, represent at least 20% of the existing load.

The rate reductions granted will have a maximum duration of ten years, including a three-year transition period toward the regular rate. To take into account the risks related to possible changes in the energy and economic environment, however, the government may terminate the reductions at any time, after obtaining the approval of the Régie de l'énergie.

By introducing the economic development rate, the government is supporting stakeholders in the industrial sector in Québec and contributing to economic development.

☐ Evaluation of the natural gas potential in the Gaspésie

The hydrocarbon potential in the subsurface of Québec has already been proven. The development of Québec's gas production potential, particularly in the Gaspésie, would encourage job and wealth creation.

Furthermore, the development of natural gas in this region would make it available to businesses in other regions, particularly those located in Plan Nord territory and on the Îles-de-la-Madeleine. The government intends to ensure that the work in this regard is carried out in a way that is responsible and that respects the environment.

☐ Extension of the natural gas distribution network

Several regions in Québec are not currently served by natural gas. The investments required and the distances involved do not meet the profitability criteria required by the Régie de l'énergie in order to authorize the completion of network extension projects while keeping rates the same for all clients.

The government wishes to encourage access to natural gas for the greatest possible number of regions within Québec. This energy is increasingly replacing heavy fuel oil, thanks to its more competitive cost and lower pollution levels.

The government therefore intends to financially support the completion of projects to extend the natural gas distribution network. Better access to natural gas will allow companies to invest in improving their efficiency while reducing their carbon footprint.

To this end, the government is setting aside an envelope of $38 million for projects related to the extension of the natural gas distribution network. This amount will be divided among different projects, for which the government will finance up to 50% of the amount not authorized by the Régie de l'énergie, taking into consideration the contributions of other stakeholders. This financing will come from the amounts allotted to the Ministère de l'Énergie et des Ressources naturelles from the Green Fund.

- Several projects targeting different regions of Québec are under study.
- To be eligible, the projects must include an investment from the distributor and the federal government and a community contribution.

Budget 2015-2016 makes it a priority to invest sums from this envelope specifically in the extension of the gas pipeline from Lévis to Sainte-Claire in the regional county municipality (RCM) of Bellechasse.

- The extension of this pipeline will have a favourable economic and environmental impact on the entire region.
- These investments will allow the government to avoid any impact on the rates paid by consumers.

The Régie de l'énergie regulations for the natural gas sector

The Régie de l'énergie regulates the natural gas sector. The *Act respecting the Régie de l'énergie* applies to the provision, transmission, distribution and storage of natural gas delivered or intended to be delivered via pipeline to a consumer.

The Régie de l'énergie sets the rates and service conditions for natural gas distributors. It is also responsible for ensuring that consumers have sufficient supply and pay a fair rate.

- This rate must allow the distributors to cover their costs and ensure them a reasonable return related solely to their investment in the financing of infrastructure.

Natural gas distributors must obtain authorization from the Régie de l'énergie to acquire or construct infrastructures designed for transmission or distribution. The Régie considers several factors, including:

- the investments required;
- the operating expenses related to the project;
- the safety of the gas supplies;
- the shareholder's rate of return.

☐ Accelerated capital cost allowance for assets used in the natural gas liquefaction process

In order to encourage the development of the liquefied natural gas industry in Québec, Budget 2015-2016 provides for the implementation of an accelerated capital cost allowance for assets used in the natural gas liquefaction process.

For assets used in the gas liquefaction process acquired after February 19, 2015 and before January 1, 2025, a business may benefit from an increase in the amortization rate:

- from 8% to 30% for materials;
- from 6% to 10% for buildings.

The increase in the amortization rate will allow companies to free up cash flow more quickly, which will ease the financing of their investments.

This measure will particularly encourage the development of the infrastructure necessary to supply the Côte-Nord and northern Québec with natural gas, which will result in:

- the reduction of greenhouse gases (GHG) through companies converting from fuel oil to natural gas;
- the reduction of energy supply costs for businesses in this area, thereby increasing their competitiveness.

The financial impact of this initiative for the government will reach $1.1 million in 2018-2019 and $3.8 million in 2019-2020.

TABLE B.71

Financial impact of introducing an accelerated capital cost allowance for assets used in the natural gas liquefaction process
(millions of dollars)

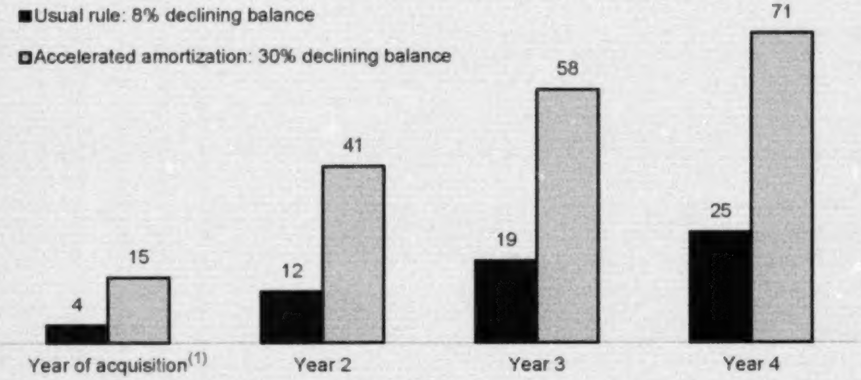
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Accelerated capital cost allowance for assets used in the natural gas liquefaction process	—	—	—	−1.1	−3.8	−4.9

■ Illustration of the impact of the accelerated capital cost allowance for materials used in the natural gas liquefaction process

The increase in the amortization rate will allow a business, after four years of using eligible materials, to benefit from deductions equal to 71% of the cost of acquisition, compared to 25% with the usual amortization rule.

GRAPH B.5

Illustration of the impact of the accelerated capital cost allowance for materials used in the natural gas liquefaction process
(accumulated capital cost allowance as a percentage of the cost of acquisition)



(1) For the year of acquisition, the tax rules provide for a half-rate of amortization.

6.4.4 Ensure the transparent development of our natural resources

In Budget 2014-2015, the Québec government announced, following the example of the federal government, that it would be putting new standards in place to require companies in the extractive sector to disclose their payments to local and foreign governments.

- This initiative reflects a global trend toward encouraging transparency in the extractive industry and decreasing the cases of abuse by multinational companies that operate in developing countries.

The federal government recently sanctioned the *Extractive Sector Transparency Measures Act*. The purpose of this law is to establish new standards for information disclosure by Canadian companies in the extractive sector.

- The implementation date of the provisions of the *Extractive Sector Transparency Measures Act* will be set by decree at a later date.

Given that the *Extractive Sector Transparency Measures Act* has now been sanctioned, the Québec government can implement the provisions of the Québec legislation so that they are equivalent to those implemented by the federal government.

The Québec legislation, which will combine the disclosure obligations of the *Mining Act* with obligations regarding the disclosure of payments, will simplify the declaration process for Québec companies in the extractive sector. Québec companies will therefore only have to disclose their information under the terms of this new integrated law.

The government will entrust the administration of the law to the Autorité des marchés financiers.

The bill regarding transparency in the extractive sector will be brought in by the Minister for Mines in the coming months.

The *extractive sector transparency measures act* in Québec

The *extractive sector transparency measures act* will outline provisions requiring Québec extractive companies in the oil, gas and mining sectors to publish annual reports listing payments of $100 000 or more, paid to all levels of government in Canada or in other countries, including Aboriginal bodies.

More specifically, it will target companies with a focus on commercial operations, i.e. companies that engage in activities such as exploration or extraction or that hold a permit allowing them to engage in such activities.

However, the reporting obligations will apply only to companies that are listed on a stock exchange in Canada for which the primary authority is the Autorité des marchés financiers or that have a place of business in Québec and meet at least two of the following conditions:

- have at least $20 million in assets;
- generate at least $40 million in revenue;
- employ, on average, at least 250 workers.

The companies will have to declare payments, in cash or in kind, made to a payee, including:

- taxes (other than consumption taxes and personal income taxes);
- royalties;
- fees;
- production entitlements;
- infrastructure improvement payments.

The act will stipulate that the government may add certain provisions by regulation, particularly the inclusion of other payment categories.

Furthermore, the disclosure obligations of the *Mining Act* will be combined with this new legislation. Thus, extractive companies will have to disclose, in particular:

- the nature and quantity of the substances extracted;
- the value of the substances extracted.

6.4.5 Promoting the Québec forest sector and wildlife resources

The forests of Québec constitute a collective heritage that generates a significant number of jobs. Sustainable development of this resource is therefore essential to ensure the future of these jobs and the development of the regions that depend on this resource.

Moreover, the government also wants to ensure that when opportunities arise to develop new products or processes related to the lumber sector, businesses will have access to the capital necessary to make strategic investments.

- In Budget 2014-2015, the government announced the financing of a fund to accelerate the development of a new industrial sector, residual forest biomass. The Fonds Biomasse Énergie I will contribute to the economic development of the regions of Québec and the preservation of the environment and also create partnership opportunities with forest cooperatives.

The government intends to continue and strengthen its support of the forest sector, given its significant contribution to the Québec economy, particularly in the regions.

Budget 2015-2016 provides additional support for the economic vitality of the forest regions:

- by supporting investments in the pulp and paper sector;
- by maintaining the accessibility of the lands in the domain of the State;
- by supporting the protection and conservation of wildlife resources.

TABLE B.72

Financial impact of the measures to promote the Québec forest sector and wildlife resources
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New investments by the Fonds Valorisation Bois in the pulp and paper sector	—	—	—	—	—	—
Maintaining the accessibility of the lands in the domain of the State	−2.5	−0.9	−0.9	−0.9	−0.9	−6.1
Increased support for the protection and conservation of wildlife resources	—	—	—	—	—	—
TOTAL	**−2.5**	**−0.9**	**−0.9**	**−0.9**	**−0.9**	**−6.1**

The Fonds Biomasse Énergie I

Residual forest biomass as a heating energy source complements other forms of renewable energy. The forest biomass sector targets the market for fuel substitutes to replace polluting, non-renewable forms of energy such as light fuel oil, heavy fuel oil and propane.

In Budget 2014-2015, the government announced a $10 million investment to create a new fund to accelerate the development of the residual forest biomass sector.

In addition to the government's investments, Fondaction will invest $10 million and the Fédération québécoise des coopératives forestières will invest $200 000, which will bring the total capitalization of the fund to $20.2 million.

The fund intends primarily to finance projects involving:

- the physical conversion of heating facilities that use fossil fuels into heating facilities that use residual forest biomass;
- new heating facilities, if it is demonstrated that the alternative solution would be the use of fossil fuels;
- new facilities or upgrades to biomass treatment and conditioning centres.

The investments will be made in the form of loans or quasi-equity, and the terms and conditions will be negotiated on a case-by-case basis, in light of the wide diversity of potential projects. The fund will be managed by Fondaction.

The Minister of the Economy, Innovation and Exports and the Minister of Forests, Wildlife and Parks will announce the details of the terms and conditions of this fund soon.

☐ New investments by the Fonds Valorisation Bois in the pulp and paper sector

In Budget 2012-2013, the government announced its intention to create the Fonds Valorisation Bois in order to invest in high-value-added projects in the secondary and tertiary processing of forest products.

The fund, created in 2012, is endowed with capitalization of $170 million – $95 million from the Québec government and $75 million from the Fonds de solidarité FTQ.

The Fonds Valorisation Bois supports jobs and economic vitality in Québec's forest regions and also acquires an interest in companies that specialize in activities with strong potential, such as processing wood into:

- components and materials for building construction;
- biofuel;
- bioproducts.

Since the government wishes to encourage businesses in the forest sector to invest in high-value-added niches, as well as in the development of their business, Budget 2015-2016 changes the terms and conditions of the Fonds Valorisation Bois to allow the fund to invest in pulp and paper sector projects that will:

- introduce innovations with the goal of developing new uses for wood fibre;
- modernize infrastructure and equipment in order to increase the competitiveness of the businesses.

By expanding the number of sectors eligible for the Fonds Valorisation Bois, the government is supporting the forest industry in Québec by investing in high-performing and innovative companies. In this way, Québec will ensure it can count on a forest industry that provides job and wealth creation.

☐ Financing to support sustainable forest development

The forestry industry is an important sector for Québec, particularly in the regions. More than 55 000 jobs are associated with this sector, which generates total revenues of nearly $17 billion.

The government will devote $542 million in 2015-2016 to support the sustainable development of the Québec forest and protect the future of jobs in the forestry sector.

The substantial sums devoted to silvicultural work and forest planning and management will preserve Québec's forest heritage for future generations, stimulate economic activity in the regions and improve the quality of life for our workers.

TABLE B.73

Net contribution by the government to support sustainable forest development
(millions of dollars)

	2014-2015	2015-2016
Royalties and fees on felled timber(1)	**273**	**308**
Expenditure		
Silvicultural work	225	225
Forest planning and management(2)	311	317
Total – Expenditure	**536**	**542**
NET CONTRIBUTION	**–263**	**–234**

(1) Including various sources of revenue related to forest protection.
(2) Including the production of seedlings and financing for multipurpose roads.

To finance its development, the forestry sector receives a portion of the revenue from royalties and fees collected on timber harvesting, as well as budget allocations.

These amounts cover expenditures related to the silvicultural work required to maintain the production capacity of Québec's forests, the production of seedlings, the activities of the Société de protection des forêts contre les insectes et maladies (SOPFIM) and the Société de protection des forêts contre le feu (SOPFEU) and various forest planning and management programs.

TABLE B.74

Financing of sustainable forest development
(millions of dollars)

	2014-2015	2015-2016
Royalties and fees	239	242
Budget allocations	297	300
TOTAL	**536**	**542**

❑ Maintaining the accessibility of the lands in the domain of the State

Numerous roads located on the lands in the domain of the State provide access to the territory and its resources. These roads are also used for natural resource development activities, such as hunting, fishing, resorts and recreational tourism.

— In 2013, the network of multipurpose roads represented 248 478 km across the entire territory of Québec. Over time, the quality of these roads may deteriorate, through use and the effect of weather conditions.

— Currently, there are more than 600 infrastructures, such as bridges and culverts, that require maintenance work.

Consequently, the State must see to the improvement, repair and maintenance of these roads, which are in greater and greater use with each passing year. To ensure the safety of the users of the multipurpose roads, an investment of $10 million will be provided by the Ministère des Forêts, de la Faune et des Parcs in 2015-2016, in order to meet priority repair needs.

— The financing for this measure will be provided through forest royalties and fees. The amounts will be paid to the Natural Resources Fund.

❑ Increased support for the protection and conservation of wildlife resources

Hunting, fishing and trapping activities generate substantial economic impact each year. The conservation, development and protection of wildlife resources and their habitats are the responsibility of the government, to the benefit of the population of Québec.

The Minister of Forests, Wildlife and Parks will review the fee schedule for hunting, fishing and trapping licenses.

The additional revenues, in the order of $5 million per year, will be reinvested, particularly by devoting additional resources to the presence of wildlife protection officers on the ground.

Likewise, additional resources will be invested in knowledge acquisition and applied research activities related to animal populations and their habitats, in order to foster the adequate renewal of their populations.

Finally, additional resources will be devoted to development projects and the promotion of wildlife-related activities.

The license fee review will be explained in detail at a later date by means of a decree from the Minister of Forests, Wildlife and Parks.

7. NEW CULTURAL AND COMMUNITY INITIATIVES

The government must be socially fair and uphold our values. To support sustainable community and cultural development, Budget 2015-2016 will introduce a series of tax and budget measures, including:

- a new financial assistance program to help seniors pay their municipal taxes;
- a financing program for the installation of sprinklers in private seniors' residences;
- an investment to improve housing conditions for the most disadvantaged;
- an additional support for the Fondation du Dr Julien's development of the community social pediatrics network;
- further investments to support Québec's cultural sector.

These measures will, in particular, play a role in reducing the economic and tax burden of communities and foster a greater degree of social justice.

The measures put forward by the government represent investments of nearly $310 million over a five-year period.

TABLE B.75

Financial impact of new cultural and community initiatives

(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New assistance program for seniors for the payment of municipal taxes(1)	−2.0	−3.9	−2.9	−3.0	−3.0	**−14.8**
Financing program for the installation of sprinklers in private seniors' residences	−4.5	−10.0	−14.4	−18.8	−22.9	**−70.6**
New initiatives to promote the well-being of families	−2.4	−1.5	−2.5	—	—	**−6.4**
Support for the Fondation du Dr Julien's development of the community social pediatrics network	−2.0	−5.0	−5.0	−5.0	−5.0	**−22.0**
Investment to improve housing conditions for the most disadvantaged	−14.0	−9.0	−14.0	−20.0	−96.0	**−153.0**
Program to support housing cooperatives affected by the end of the federal government assistance program	−3.0	−3.0	—	—	—	**−6.0**
50% increase in the eligible amount when donating an agricultural product to a recognized organization	−1.0	−1.8	−1.8	−1.9	−1.9	**−8.4**
Québec action plan for the identification and prevention of violent radicalization	−1.0	−1.5	−1.5	—	—	**−4.0**
Support for border areas through an additional drop in the gasoline tax	—	—	—	—	—	—
Support for municipalities with regard to environmental issues						
– Assistance to reclaim contaminated land	—	—	—	—	—	—
– Assistance to help municipalities located along the St. Lawrence River deal with coastal erosion	—	—	—	—	—	—
Further investments to support Québec's cultural sector	−12.0	−12.0	—	—	—	**−24.0**
TOTAL	**−41.9**	**−47.7**	**−42.1**	**−48.7**	**−128.8**	**−309.2**

(1) Introduction slated for January 1, 2016.

7.1 New assistance program for seniors for the payment of municipal taxes

For some long-time homeowners, an increase in their home's property value brings with it a rise in municipal taxes that exceeds an increase in their income. This can make it difficult for some homeowners to pay their municipal taxes and even lead some to consider selling their principal residence. The impact on the health and quality of life of people uprooted from their living environment is particularly acute for seniors.

In its Budget 2014-2015, the government announced plans to implement a program that would help seniors pay their property taxes.

To follow through on this commitment, Budget 2015-2016 includes the introduction, on January 1, 2016, of a new assistance program to help seniors pay their municipal taxes.

❑ Assistance to help long-time homeowners pay their municipal taxes

The goal of the new program is to help seniors who are long-time homeowners keep their principal residence. The assistance granted will offset hikes in municipal taxes associated with an increase in property values that significantly exceeds the average increase for residential homes throughout the municipality's territory.

The program targets people 65 and over who have owned their home for at least 15 years and whose net family income does not exceed $50 000. The assistance program for seniors' municipal taxes only applies to the municipal taxes levied on a principal residence.

Assistance will be granted to homeowners hit by an increase in the property value of their home, due to the filing of a new property assessment roll, that is more than 7.5% higher than the average increase for the municipality as a whole.

Homeowners who meet the eligibility conditions will benefit from the program for as long as they continue to own and live in their home. Furthermore, the amount of financial assistance to which they are entitled cannot be less than the amount received the previous year.

Illustration of the calculation of the subsidy granted to seniors under the assistance program for the payment of municipal taxes

Homeowners affected by an increase in the property value of their principal residence that is more than 7.5% higher than the average increase in their municipality could be eligible for a subsidy.

For example, a homeowner sees the property value of his home increase by 23.2%, from $175 000 to $215 600, while the average hike in property values in his municipality is 3%.

With a general municipal property tax rate of $0.90 per $100 assessed, this homeowner would be entitled to assistance in the amount of $200, calculated as follows:

- property value under adjusted tax roll: [1 + (3% + 7.5%)] x $175 000 = $193 375;
- compensated property value: $215 600 – $193 375 = $22 225;
- assistance granted: $22 225 x 0.9% = $200.

❑ Support to help municipalities implement the program

Each year, homeowners subject to significant municipal tax hikes as a result of increases in the property value of their home will be notified of the subsidy amount to which they may be entitled on their municipal tax statement. Eligible homeowners will be able to request the subsidy in question when they prepare their income tax return, based on the information on their municipal tax statement. The assistance will be paid by Revenu Québec.

To this end, municipalities will be required to establish the amount of the general property tax eligible for a subsidy and include this information on municipal tax statements.

The Ministère des Affaires municipales et de l'Occupation du territoire will help municipalities implement the program.

❑ Assistance of $3 million per year

To this end, additional appropriations of $2 million in 2015-2016, $3.9 million in 2016-2017, $2.9 million in 2017-2018, $3 million in 2018-2019 and $3 million in 2019-2020 will be granted to the Ministère des Affaires municipales et de l'Occupation du territoire.

For 2015-2016, the projected amounts will be drawn from the Contingency Fund. These amounts also include the sums required for program management and to support the municipalities.

TABLE B.76

Cost of the assistance program for seniors for the payment of municipal taxes
(millions of dollars)

	2015-2016[1]	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**
New assistance program for seniors for the payment of municipal taxes[2]	2.0	3.9	2.9	3.0	3.0

(1) Introduction slated for January 1, 2016.
(2) Including program administration expenses.

7.2 New assistance program for the installation of sprinklers in private seniors' residences

The tragic events of January 23, 2014, at the Résidence du Havre in L'Isle-Verte underscored the importance of improving safety rules in privately owned seniors' residences.

Following the submission of the Delâge Report on the circumstances surrounding this fire, the government announced that the installation of automatic sprinklers would become mandatory for all existing private seniors' residences.

Coroner Delâge's principal recommendations concerning the circumstances surrounding the fire at Résidence du Havre in L'Isle-Verte

On February 12, Coroner Delâge released his public investigation report regarding the fatal fire that led to 32 deaths at the Résidence du Havre in L'Isle-Verte on January 23, 2014. This report included a number of recommendations, most notably:

- encouraging rural and urban cities and towns to centralize fire services;
- requiring that municipal authorities regularly review fire safety cover plans;
- making the installation of automatic sprinklers mandatory in all certified facilities, old or new, in both rural and urban environments;
- requiring that a minimum of one response team immediately make its way to the site as soon as there is a fire alarm;
- abolishing the "grandfather clause" exempting certain firefighters from certain training requirements.

The coroner also submitted recommendations to the Agence de la santé et des services sociaux du Bas-Saint-Laurent with regard to the certification of residences, the validation of intervention plans for facilities and the number of attendants per shift, as well as the extent of their fire safety and emergency evacuation training.

A public consultation on the regulation concerning the mandatory installation of sprinkler systems in newly built seniors' residences was held last September. The regulation should come into effect this spring with the planned publication of the latest edition of the Québec Construction Code.

The imminent adoption of a regulation concerning existing seniors' residences will extend to existing residences the requirement to install sprinkler systems.[21]

☐ Few private seniors' residences are equipped with sprinklers

Of the 1 937 certified private seniors' residences in Québec,[22] about a third (613 residences) are equipped with sprinkler systems. A total of 1 306 existing private seniors' residences may have to install this equipment in order to comply with the new government standards.

Over 70% of these residences are small, with no more than 30 residents. While there are fewer residences with 31 to 99 residents, these facilities house more people in total than the smaller residences. The large residences (with 100 or more residents) represent only 10% of all Québec facilities but are home to more than half of all residents (57%).

TABLE B.77

Overview of the private seniors' residences that will be obliged to install automatic sprinkler systems(1)

	Number of private seniors' residences	Number of residents	Number of living units	Estimate of the cost of the work ($ millions)
30 or fewer residents	950	12 007	11 306	94
31 to 99 residents	231	12 474	11 041	62
100 or more residents	125	32 362	22 773	96
TOTAL	**1 306**	**56 843**	**45 120**	**253**

Note: Since the figures have been rounded, they might not add up to the indicated total.
(1) Refers to private seniors' residences with no automatic sprinkler systems or with only partial equipment.
Sources: Régie du bâtiment du Québec, Ministère de la Santé et des Services sociaux and Ministère des Finances du Québec.

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[21] As will be the case for new seniors' residences, the following facilities will be exempt from this requirement: 1) single-family dwellings accommodating seniors (single-family home of no more than two stories, where the natural person who resides there also operates a seniors' residence housing no more than 9 people in addition to the owner and the owner's family); and 2) one-story buildings dedicated solely to accommodating seniors, where the building has an area of no more than 600 m^2 and comprises a maximum of 8 units housing no more than 16 residents.

[22] Based on the number of certified private seniors' residences in July 2014.

❑ Major retrofits required

The mandatory installation of sprinkler systems in existing private seniors' residences will call for major investments by the owners of the facilities in question. The costs involved are estimated at $253 million.

The cost of installing sprinklers in existing private seniors' residences will be greater than those for installing such equipment in newly built residences, as the work in the first case requires tearing down and rebuilding or repairing walls and ceilings to allow for the laying of pipes. According to estimates, these additional costs could account for nearly 60% of the total costs of installing sprinklers in existing seniors' residences.

For many owners of such existing residences, there will be little opportunity to transfer the incurred costs to their clients, since many residents only have access to a limited income.

❑ A financial assistance program for existing private seniors' residences

To facilitate these investments, Budget 2015-2016 provides for the creation of a financial assistance program to help the owners of existing private seniors' residences install the equipment needed to comply with these new requirements.

Eligible residences will include existing facilities certified by the Ministère de la Santé et des Services sociaux as a private seniors' residence (or those with a temporary certification) and which are not equipped or are only partially equipped with automatic sprinklers. Newly built facilities and residences exempted under the program will not be eligible.

This measure will help the owners of these private seniors' residences pay for the installation of the required equipment while also limiting possible rent increases following the retrofitting of the residences involved.

This measure will extend over a period of five years, to ensure the orderly execution of the work. Over the first two years, priority will be given to projects deemed the most urgent from a fire safety perspective.

Possible exemption for some private seniors' residences

The regulatory provisions of the draft regulation amending the Safety Code imply that subject to certain conditions, sprinklers need not be installed in two-story private seniors' residences with an outside exit door and a stairway.

The financial assistance program will address the cost of adding a stairway. Eligible costs will include those associated with the stairway, the exit door and all other related work on the second story or outside. The financial assistance granted may not, however, be greater than the amount that would have been awarded for the installation of sprinklers.

Substantial assistance for smaller residences

The new program will provide grants to help the owners of private seniors' residences repay loans obtained from financial institutions for the specific purpose of installing the necessary equipment. The assistance will be paid over a period of five years and serve to repay both the principal and the interest on the loans.

The amount of assistance provided will vary based on residence size, which is determined by considering the number of people that the facility can accommodate.

- The owners of private seniors' residences with 30 or fewer residents will be entitled to assistance equal to 60% of the financing costs incurred.[23]
- The owners of seniors' residences housing between 31 and 99 residents will be eligible for assistance equal to 40% of the financing costs incurred.
- Lastly, the owners of seniors' residences housing 100 or more residents will be entitled to assistance equal to 20% of the financing costs incurred.

Eligibility of the work

The eligible expenses will consist of the capital investments[24] made to install automatic sprinkler systems and, for certain types of private seniors' residences eligible for an exemption, the installation costs for a stairway and an outside exit door. These expenses will include the costs of the sprinkler systems as well as those associated with the demolition and repair of walls and ceilings during the laying of pipes. If there is no water supply system or if the flow from the existing system is not strong enough to ensure the efficient operation of the sprinklers, expenses may also include the installation costs for pumps, generators and tanks.

Residence owners will be responsible for taking the necessary steps to certify that the work complies with the new standards in effect.

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[23] Financial expenses include the principal and interest.

[24] These expenses are generally amortized over the useful life of the fixed assets.

Compliance of the sprinkler system installation work

The work will need to be evaluated by an engineer who is a member of the Ordre des ingénieurs du Québec, to ensure it complies with the standards established by the Régie du bâtiment du Québec.

To allow the sprinkler system installation and maintenance to be monitored over time, the owners of private seniors' residences will be required to keep in a register on site, available for consultation by the competent authorities, a report containing information concerning the installation and regular maintenance of their sprinkler system in accordance with the prescribed standards.

This information must include:

- the contact details of the engineer who certified the work;
- a description of the mandate and the applicable fire safety standard;
- duly signed and sealed plans for the installed sprinkler system;
- the start date of the work;
- details of all inspections;
- evaluation reports on the sprinkler system's operations subsequent to the required maintenance and inspections;
- the compliance certificate issued at the end of the work by an engineer who is a member of the Ordre des ingénieurs du Québec, certifying that the system was designed, installed and tested as per the standards in force and as per the duly signed and sealed plans for the installed sprinkler system.

Receiving financial assistance will be contingent on obtaining a certificate of compliance.

❑ Program administration and financial implications

The Société d'habitation du Québec will be assigned the mandate to administer the program. The assistance offered under this program will be paid to the owners of private seniors' residences who apply for the program, on the submission of the necessary supporting documents (certificate of compliance with regulations and documents attesting to the value of the work performed).

To this end, additional appropriations of $4.5 million in 2015-2016, $10 million in 2016-2017, $14.4 million in 2017-2018, $18.8 million in 2018-2019 and $22.9 million in 2019-2020 will be granted. The projected sums will be drawn from the Contingency Fund.

The terms of application for the program will be announced in the weeks following the coming into force of the new sprinkler system installation requirements for existing private seniors' residences.

TABLE B.78

Cost of the assistance program for the installation of sprinklers in existing private seniors' residences
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Future years[1]	Total over 10 years
Expenses for private seniors' residences							
– Amounts for planned work	50.5	50.5	50.5	50.5	50.5	—	**252.5**
– Project financing costs (principal and interest)	12.1	23.8	35.1	46.1	56.6	109.1	**282.8**
Cost to the government[2]	**4.5**	**10.0**	**14.4**	**18.8**	**22.9**	**45.3**	**115.9**

(1) From 2020-2021 to 2024-2025.
(2) Including program management expenses and based on a projected average financing rate of 4%.

Assistance that can be supplemented with municipal initiatives

This past February 13, the Ville de Montréal announced the introduction of a sprinkler system subsidy program for the owners of private seniors' residences across the entire territory of metropolitan Montréal.

To date, with the exception of the Ville de Montréal announcement, most Québec municipalities have yet to implement or announce a program to support the installation of sprinklers in seniors' residences.

However, several municipalities have redevelopment programs that cover certain renovation work that includes the installation of sprinklers.

It will be possible to supplement the new government assistance program with municipal initiatives. Municipalities will have the option to align their assistance program (coverage percentage, work covered, etc.) with the Québec government program.

7.3 New initiatives to promote the well-being of families and gender equality

Budget 2015-2016 includes $6.4 million in new appropriations, over a three-year period, to offer increased support to families. This assistance will consist of:

- the implementation of an action plan to prevent bullying;
- the extension of the 2011-2015 government Action Plan on Gender Equality for another year;
- the introduction of partnerships between childcare centres (CPEs) and non-subsidized daycare centres.

TABLE B.79

Cost of measures for families
(millions of dollars)

	2015-2016	2016-2017	2017-2018	Total
Anti-Bullying Action Plan	0.4	1.5	2.5	4.4
Action Plan on Gender Equality	2.0	—	—	2.0
TOTAL	**2.4**	**1.5**	**2.5**	**6.4**

❑ Anti-Bullying Action Plan

Bullying is everywhere – in schools, work environments, homes and public places.

To effectively take action against this phenomenon, the government has committed to introducing an action plan against bullying.

This plan, scheduled to be unveiled in the fall of 2015, will propose flexible solutions tailored to various environments and different vulnerable groups (youth, the elderly, the disabled, members of cultural minority groups, Aboriginals, etc.). The action plan encompasses several measures, including an information and awareness campaign, a training program for workers and targeted interventions in schools.

To this end, the Ministère de la Famille will receive additional appropriations of $4.4 million over three years to implement the Anti-Bullying Action Plan, broken down as follows:

- $0.4 million in 2015-2016;
- $1.5 million in 2016-2017;
- $2.5 million in 2017-2018.

For 2015-2016, the projected amounts will be drawn from the Contingency Fund.

☐ Government Action Plan on Gender Equality

The 2011-2015 government Action Plan on Gender Equality is slated to end on March 31, 2015. The extension of this action plan for 2015-2016, will allow certain programs to be continued, including support for:

- regional and national gender equality projects;
- projects to foster the empowerment of women;
- actions to increase father involvement.

In 2015-2016, the Ministère de la Justice will receive additional appropriations of $2 million to support the preliminary work required to develop the next government Action Plan on Gender Equality. Of this overall amount, $1 million will be drawn from the Contingency Fund.

☐ Partnerships between childcare centres (CPEs) and non-subsidized daycare centres

Under the review to the subsidized childcare program, the childcare centres (CPEs) will be required, as a matter of priority, to lease their premises and pay at least 50% of the capital costs associated with the creation of subsidized childcare spaces.

To help some CPEs to comply with these new requirements, the Ministère de la Famille is proposing to create partnerships between CPEs and non-subsidized daycare centres, in particular by making use of unoccupied premises that already meet departmental standards.

- In this regard, a survey carried out by the Ministère de la Famille revealed that non-subsidized daycare centres were struggling with a significant number of available spaces (30%).

This proposal reflects the government's guideline to increase the number of subsidized places while limiting new infrastructure development.

Reminder of the development plan for subsidized childcare spaces

Under last June's 2014-2015 budget, the government presented a development plan for new childcare spaces to bring the total number of spaces available to 250 000 by 2020-2021.

According to this plan, 4 000 childcare spaces will be created next year in 2015-2016.

7.4 Supporting the Fondation du Dr Julien for the development of the community social pediatrics network

Dr. Julien is a pioneer in the development of community social pediatrics in Québec. His actions have led to the development of a network currently comprised 16 pediatric centres in Québec.[25]

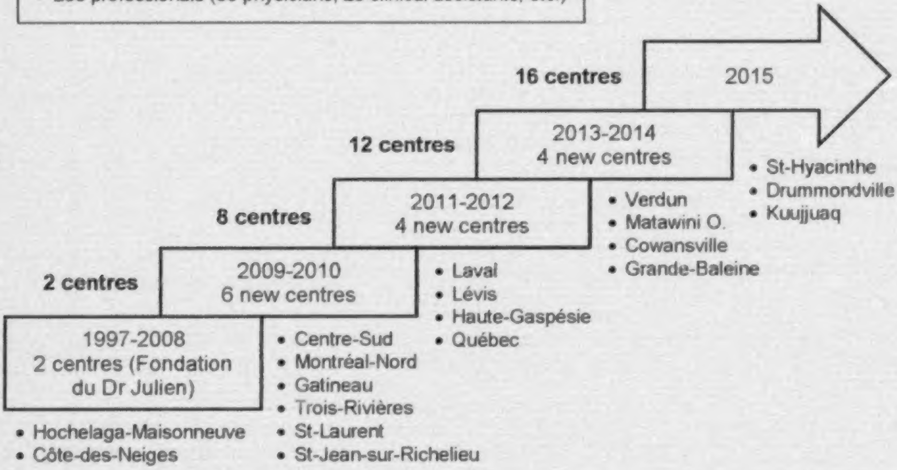
These centres follow some 4 000 vulnerable children battling various problems associated with harsh living conditions and calling for integrated social healthcare services.

GRAPH B.6

Growth in the number of community social pediatrics centres

In 2014

- 4 000 children receiving community social pediatric care
- 200 professionals (35 physicians, 20 clinical assistants, etc.)



Source: Fondation du Dr Julien.

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[25] Three new centres should be added in 2015, namely in Saint-Hyacinthe, Drummondville and Kuujjuaq.

Community social pediatrics

Community social pediatrics is an interdisciplinary approach to the treatment of vulnerable or at-risk children and families which strives to prevent or improve the problematic circumstances these people are facing.

Community social pediatrics centres are at the heart of these interventions, which help identify vulnerable children, understand their complex problems, establish partnerships with families and mobilize community resources to foster improved child development.

The pooling of interdisciplinary services makes it possible to comprehensively treat the sources of disease and the underlying causes of the problems experienced by children from underprivileged environments. This approach is more cohesive and effective and better addresses the needs of vulnerable children.

The practice is based on an intervention model that promotes support for the child in close cooperation with the family and the community.

☐ Extending the network to over 40 centres in order to cater to 20 000 children by 2020

Demand for social pediatrics is growing. In order to meet this demand, the Fondation du Dr Julien has set a target to make community social pediatric care accessible to 20 000 vulnerable children in Québec by 2020. The Fondation is planning to expand its network to 42 centres across Québec in order to achieve this goal.

The government plans to support the Fondation du Dr Julien with the development of this network. Thus, in addition to the other civil society contributions made to the Fondation, the government plans to make a contribution that could total $60 million by 2020.

Budget 2015-2016 will therefore make provisions for a first financial contribution of $22 million for the next five years. Of this amount, $2 million is earmarked for 2015-2016 and $5 million a year for each fiscal year from 2016-2017 to 2019-2020. This contribution may be increased depending on the progress of the new centres and if the Fondation is achieving its objectives regarding the number of children who will have access to community social pediatric care.

To this end, additional appropriations of $2 million for 2015-2016 and $5 million for 2016-2017, 2017-2018, 2018-2019 and 2019-2020 will be allocated to the Ministère de la Famille, which will be responsible for transferring the funds to the Fondation du Dr Julien. For fiscal 2015-2016, the required funding will be drawn from the Contingency Fund.

TABLE B.80

Financial assistance for the development of the network of community social pediatrics centres
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Contributions made to the Fondation du Dr Julien	2.0	5.0	5.0	5.0	5.0	22.0

7.5 A $284-million investment to improve living conditions for the most disadvantaged

In spite of the ongoing improvements made to the rental housing sector in recent years, many vulnerable households are still struggling to find suitable accommodation.

In order to ensure that low-income families or families with specific housing needs live under adequate conditions, Budget 2015-2016 has earmarked investments totalling $284 million for housing. By optimizing the funds available, it is estimated that 7 300 families will have access to affordable housing, with an additional 1 000 families as early as 2015-2016. The government thereby confirms its commitment to improve living conditions for the most disadvantaged and to continue adapting and renovating private residences in all regions across Québec.

- $126 million for the construction of 1 500 new social housing units;
- $123 million to add 5 800 new units rapidly into Rent Supplement program;
- $35 million to continue the adaptation and renovation of private residences.

TABLE B.81

Investment to improve housing conditions for the most disadvantaged
(millions of dollars)

		Fiscal impact						
	Investments	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**Other years**	**Total**
Construction of 1 500 social housing units	126.0[1]	—	—	—	—	−71.0	−55.0	−126.0
Addition of 5 800 units to the Rent Supplement program	123.0	−4.0	−9.0	−14.0	−20.0	−25.0	−51.0	−123.0
Continuing adaptation and renovation of private residences[2]	35.0[3]	−10.0	—	—	—	—	—	−10.0
TOTAL	**284.0**	**−14.0**	**−9.0**	**−14.0**	**−20.0**	**−96.0**	**−106.0**	**−259.0**

(1) The $126 million includes a $19.5-million contribution towards rent supplements.
(2) Includes the Residential Adaptation Assistance program (PAD) and the Rural Repair program (PRR). The PRR will replace the RénoVillage program (RVI) and the Emergency Repair Program (PRU).
(3) Of the $35-million investment, $10 million will be funded from new budget funding.

To this end, additional appropriations of $14 million in 2015-2016, $9 million in 2016-2017, $14 million in 2017-2018, $20 million in 2018-2019 and $96 million in 2019-2020 will be allocated to the Ministère des Affaires municipales et de l'Occupation du territoire. The funding required for 2015-2016 will be drawn from the Contingency Fund.

❑ Increasing the supply of social, community and affordable housing units

Budget 2015-2016 provides for an investment of $126 million for the construction of 1 500 new social housing units as part of the AccèsLogis Québec program.

In addition to enabling vulnerable households to have access to suitable housing, the investments will contribute to the vitality of the cities and regions in Québec.

These new units bring the total number of housing units announced since fiscal 2002-2003 to over 42 500 and an investment of $2.7 billion.

AccèsLogis Québec

AccèsLogis

The AccèsLogis Québec program enables housing bureaus, housing cooperatives and non-profit organizations (hereinafter referred to as "developers") to offer affordable social and community housing to low- and modest-income households or groups that are struggling with specific requirements.

Under the program, the government, the project developer and the community (generally the municipality) cover 50%, 35% and 15% respectively of the maximum eligible costs of a project.

The amount of financial assistance varies according to the territory, target group and number of rooms in the housing unit. For instance, the eligible construction cost of a 2-bedroom unit in a major urban centre is $134 200 and is broken down as follows:

- $67 100 for the Québec government;
- $46 970 for the developer;
- $20 130 for the community.

Given the target group for these housing units, the rent is set below the average market rent.

Delivery deadline

There are many steps in the process and as a result there is a certain amount of time between the date on which the government announces the creation of social housing and the date from which the tenants can start moving into the units.

The Ministère des Affaires municipales et de l'Occupation du territoire has to analyze the housing needs and determine a regional allocation for the housing units announced. The different developers have to draft and submit construction plans. The Société d'habitation du Québec has to analyze and conduct a feasibility study of the projects. Construction work on the new units can only begin after the projects have been selected. Moreover, the impact of previous announcements must also be taken into consideration. The Société d'habitation du Québec must prioritize the delivery of social housing units promised in previous announcements.

■ Approximately 15 000 housing units will be delivered in the coming years

As of January 31, 2015, there were 12 497 units in progress:

— 5 362 will be delivered in the near future;

— 7 135 are in preparation.

Taking into account the 1 500 new units announced, a total of 13 997 additional social housing units will be made available in the coming years.

TABLE B.82

Construction of social, community and affordable housing units

	In progress	In preparation	Newly announced	Total
Number of housing units	5 362	7 135	1 500	13 997

☐ Reducing rent for low-income households

In a bid to ensure that a maximum number of families have access to assisted housing, Budget 2015-2016 provides for an investment of $123 million in order to add 5 800 units to the Rent Supplement program.

The Rent Supplement program allows low-income families to live in rental housing units owned by private landlords, housing cooperatives, non-profit organizations or housing bureaus. The rent they pay is similar to that of low-rental housing, in other words 25% of the tenant's eligible income, plus certain charges.

The new units will be allocated gradually: 1 000 units in 2015-2016 and 1 200 additional units per year for the following four years, up to a total of 5 800 new units.

Since the units included in the Rent Supplement program are allocated over a period of five years, the financial impact will cover the period from fiscal 2015-2016 to fiscal 2023-2024.

TABLE B.83

Construction of social, community and affordable housing units
(numbers)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
New units	1 000	2 200	3 400	4 600	5 800

Like all rental housing, the units provided for under the Rent Supplement program must provide adequate housing to the target tenants. The tenants or municipalities can seek remedies if the units are not adequate in terms of sanitation.

Reminder of control mechanisms for unsanitary conditions in housing units

In accordance with the Civil Code of Québec, the Régie du logement is empowered to declare any housing unit unfit for habitation and to rule on litigation aimed at ensuring that landlords comply with their obligations to maintain their housing units in good repair. The Régie du logement can, at the request of a tenant, cancel a lease, decrease rent, order a landlord to comply with his obligations or allow the tenant to carry them out instead.

When the Régie du logement declares a unit unfit for habitation, the landlord is prevented from renting out the target unit. If the landlord rents the unit following the ruling of a tribunal, the landlord will be subject to a fine. The new tenant who rents the unit, before it has been brought up to code, has a right to refuse to take possession and bring a suit for damages and interest against the landlord for inconveniences caused.

In addition, many municipalities in Québec have adopted a regulation on the sanitation and maintenance of housing units. Municipalities can lodge a complaint with the municipal court with a view to imposing fines on the offender and may seek an order from the Superior Court.

The Superior Court may compel the landlord to rectify the problem, allow the municipality to make the repairs at the expense of the landlord and order the evacuation and even demolition of the building.

❑ Adapting and renovating low-income family homes

Budget 2015-2016 provides for an investment of $35 million to continue programs aimed at improving the living conditions of low-income households or those with special housing needs.

— $25 million will be invested in the Residential Adaptation Assistance program.

— $10 million will be invested in the new Rural Repair program.

The aim of the Residential Adaptation Assistance program is to help disabled people cover the cost of any work required to ensure their homes are accessible and thereby facilitate their daily activities.

The Rural Repair program will provide assistance to low- or modest-income owner-occupants living in rural communities to help them repair major defects in their home.

The investments granted will allow for the renovation of approximately 1 250 homes and 3 570 pieces of specialized equipment for disabled people as well as 940 homes owned by low-income households living in rural areas.

7.6 Support program for housing cooperatives affected by the end of the federal assistance program

The federal government grants subsidies to certain housing cooperatives and non-profit housing organizations as part of the Income-Tested Assistance (ITA) program to help them pay part of their operating costs, primarily their mortgage costs. These subsidies enable the housing cooperatives to offer affordable housing to low-income families by lowering rents payable.

The agreements between the federal government and these bodies will be expiring gradually in the coming years, thereby ending the subsidy payments.

The financial situation of certain housing cooperatives and non-profit housing organizations will not allow them to continue offering lower rents to some of their residents once the subsidies end. As a result, these organizations will have no other alternative but to raise their rents in order to be able to fulfil their financial obligations.

— Certain low-income households will therefore have to contend with a significant increase in their rent.

In order to remedy this situation, Budget 2015-2016 provides for the implementation of a financial assistance measure aimed at supporting organizations that will be affected by the end of the agreements made under the ITA program.

The measure will be available for a period of 2 years and will be equal to 75% of the assistance provided under the ITA program.

❑ $6 million budget

To this end, the Ministère des Affaires municipales et de l'Occupation du territoire will be granted additional appropriations of $3 million for 2015-2016 and $3 million for 2016-2017. The funding for 2015-2016 will be drawn from the Contingency Fund.

— The program will be managed by the Société d'habitation du Québec (SHQ).

The two-year period will allow the Québec government to continue discussions with the federal government in a bid to reach an agreement to maintain all or part of the federal contribution to the housing cooperatives and non-profit housing organizations involved.

The SHQ will announce the specific terms and conditions of the program in the coming weeks. Applications can be sent to the SHQ as of May 2015.

7.7 Supporting border areas with a further reduction in the specific tax on gasoline

The government is reducing the specific tax on fuel sold in the border regions. This tax, which is in effect in Québec areas bordering New Brunswick, Ontario and the United States, is being lowered to support the competitive position of Québec retailers in those regions versus retailers in the neighbouring jurisdictions where the gasoline tax is lower, and to dissuade customers from purchasing their fuel in those neighbouring area rather than in Québec.

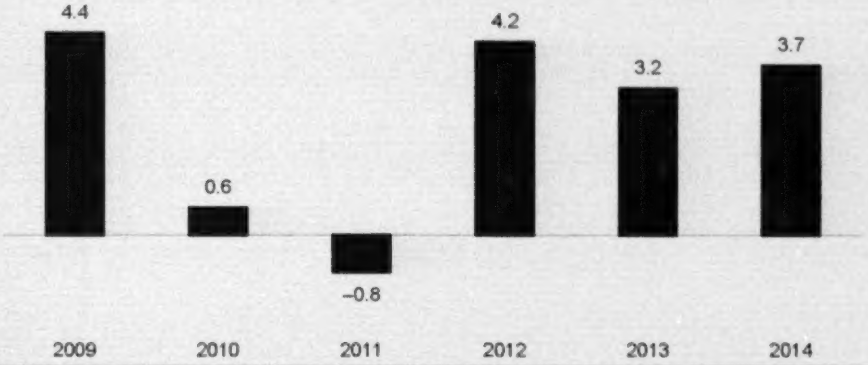
The decrease in the specific tax on gasoline, which is established based on a maximum distance of 20 kilometres from the border, ranges from 1 to 4 cents per litre in the areas bordering New Brunswick and Ontario and 2 to 8 cents per litre in the areas bordering the United States.

However, the difference in taxation between Québec and the bordering regions has increased gradually over the past several years and, as a result, the difference in gas prices has widened. For instance, the price of gas in Gatineau, which in 2011 was 0.8 cents per litre lower than in Ottawa, was 3.7 cents a litre higher in 2014, primarily due to successive increases in the general rate of the specific tax on gasoline.

As a result, the current reductions do not appear to be enough to ensure that Québec retailers in the border regions remain competitive and prevent vehicle owners from purchasing their gas in the border regions.

GRAPH B.7

Changes in the fuel-price difference in Gatineau and Ottawa – 2009 to 2014[1]
(cents per litre)



(1) A positive figure means gas prices in Gatineau are higher than in Ottawa.
Sources: Régie de l'énergie and Kent Marketing Group.

In this context, Budget 2015-2016 provides for an additional decrease in the specific tax on gasoline in border areas effective April 1, 2015. This additional reduction, which could be as much as 4 cents a litre, will help narrow the gap in fuel taxation in the border areas. This measure will help support the competitive position of retailers in the regions by limiting the number of vehicle owners who purchase their gas from neighbouring jurisdictions.

Narrowing the gap in gas prices may lead to an increase in gas sales in the border regions of Québec. The additional revenues generated by a 12% increase in gas sales would offset the additional fiscal expense incurred to implement this measure, which is estimated to total $10 million a year.

TABLE B.84

Reduction in the specific tax on gasoline in the border regions[1]
(cents per litre)

	New Brunswick and Ontario		United States	
Distance from border	**Current**	**Effective April 1, 2015**	**Current**	**Effective April 1, 2015**
Less than 5 km	4.0	8.0	8.0	12.0
From 5 km to less than 10 km	3.0	6.0	6.0	9.0
From 10 km to less than 15 km	2.0	4.0	4.0	6.0
From 15 km to less than 20 km	1.0	2.0	2.0	3.0

(1) General rate of the specific tax on gasoline is 19.2 cents per litre.

7.8 Supporting municipal environmental programs

The consensus on the importance of action on climate change is growing stronger. Québec is recognized worldwide for the quality of its 2013-2020 Climate Change Action Plan (CCAP). This highly effective plan includes ambitious objectives to decrease greenhouse gases as well as steps to transition to an economy with low carbon emissions and to prepare for the impacts of climate change. The government is continuing its leadership role by recognizing the importance of supporting municipalities in their efforts to fight climate change as well as adapt to the changes.

7.8.1 Support for the reclamation of contaminated land

The government is implementing a new program, ClimatSol-Plus, which will provide municipalities with the additional resources they need to continue reclaiming contaminated land in their territory.

The program will target land located in urban areas primarily by integrating best practices in land-use planning, for instance by promoting urban densification and sustainable mobility or by creating areas of vegetation to combat heat islands.

The change in use of the contaminated land will inject vitality into the community either by creating green spaces or increasing urban density.

Since 2007, when the ClimatSol program was implemented, approximately 220 decontamination projects have been approved, with investment of $1.6 billion. The program ends on March 31, 2015 in most municipalities except in Québec City and Montréal, which have a March 31, 2017 end date.

The ClimatSol-Plus program will receive $10 million in funding for fiscal 2015-2016 from the Green Fund, under the CCAP.

7.8.2 Assistance to municipalities along the St. Lawrence facing coastal erosion

In Québec, climate change has accelerated coastal erosion, threatening heritage buildings along the banks of the St. Lawrence River and its tributaries.

This problem primarily affects the North Shore, Lower St. Lawrence, Gaspésie and Îles-de-la-Madeleine regions, for a total of 3 250 km of shoreline and 16 regional county municipalities (RCM).

The government would like to support local decision-makers and set up an emergency coastal erosion fund in order to protect infrastructure and buildings in over a hundred communities and prevent significant social and economic repercussions on the health and safety of communities.

These measures will enable municipalities to better pinpoint the at-risk areas and adapt to the impact that climate change has on coastal erosion. This will make it possible to assess the areas at risk and determine the preventive work required to protect the river banks.

Funds may be allocated to support the municipalities' efforts to:

- assess the risks to existing infrastructure in order to prioritize actions;
- identify priority preventive measures:
  - analyze and prioritize the measures that need to be taken based on the risks associated with climate change;
  - implement preventive measures to ensure that they are prepared to deal with the impacts of climate change, primarily in terms of land-use planning.

This financial support is in addition to the other measures already in place, including those provided by the Ministère de la Sécurité publique.

An investment of $8 million from the CCAP's Green Fund will be used to fund these measures.

7.9 Acquisition of the rail network in the Gaspésie region

Québec's rail network is an important vector for the economic development of the entire province. The rail service between Matapédia and Gaspé in particular is a strategic transportation infrastructure for the Gaspésie region.

The current state of the Gaspésie rail network is significantly jeopardizing the future of rail transportation in the region.

The Société du chemin de fer de la Gaspésie (SCFG) carried out a review of the state of the Gaspésie rail network in 2011 and found it would require considerable investment to upgrade.

Given its importance, regional and local interests as well as the urgent need for action in order to ensure the railway continues to operate in the Gaspésie region, the government plans to acquire the entire network between Matapédia and Gaspé with an investment of $3.9 million in 2015-2016.

Should the government become the owner of the network, it will assess the scope of work needed to upgrade the network services that have the potential for significant traffic.

An additional $2.85 million in financial assistance could be allocated towards system operation and maintenance. These funds will be allocated as follows:

— $2.2 million from the Ministère de l'Économie, de l'Innovation et des Exportations. This will be allocated to the four regional county municipalities (Avignon, Bonaventure, Le Rocher-Percé and La Côte-de-Gaspé);

— $650 000 from the Ministère des Transports will be paid to the SCFG.

All the funding will be drawn from the funds of the Ministère des Transports and the Ministère de l'Économie, de l'Innovation et des Exportations.

7.10 Increase of 50% in eligible amount for donating agricultural products

Every year, thousands of Quebecers must turn to food-aid organizations and food banks for food. The Food Banks of Québec network processes more than 1.6 million requests for emergency food assistance per month in the regions of Québec and approximately 50% of recipients are families with children.

— The network consists of 18 regional food banks called Moissons members. They collect, sort, carry out quality control and redistribute food items to over 1 000 food banks across Québec.

In order to ease food insecurity for many households, it is essential that the food banks obtain fresh, nutritional and locally produced food items in order to be able to distribute varied and healthy food products.

Farmers are already major suppliers to regional food banks, providing food items such as fruit, vegetables, meat, dairy products, and grains.

However, in general these farmers have to cover the additional storage and delivery costs incurred to supply the items to the food banks. Moreover, given the current challenges they face, farmers must exert tighter control over their expenditures and increase productivity in order to maintain their position on the local market and expand onto external markets.

To help ensure that Québec families have access to a better supply of fresh and local produce, Budget 2015-2016 provides for a 50% increase in the eligible amount for donating agricultural produce to any one of the Moissons within the Food Banks of Québec network.

— The tax advantage for the farmer will be in the form of a non-refundable tax credit for donations for individuals or, for companies, a deduction for donations.

This measure will cost the government approximately $2 million per year.

7.11 Plan d'action québécois pour le dépistage et la prévention de la radicalisation menant à la violence (Québec action plan to identify and prevent radicalization leading to violence)

Like other societies, Québec has been affected by radicalization that may lead to violence. The government must take steps to counter this new reality.

The government is thus announcing implementation of the Plan d'action québécois pour le dépistage et la prévention de la radicalisation menant à la violence. This plan will involve concrete action across all sectors in three areas in order to:

- document the problem of radicalization leading to violence;
- prevent adherence to radical ideologies that advocate violence;
- promote the creation of an inclusive society and respect for democratic principles, primarily by fighting discrimination and social exclusion.

To this end, additional appropriations of $1.0 million in 2015-2016 and $1.5 million in 2016-2017 and 2017-2018 will be granted to the Ministère de l'Immigration, de la Diversité et de l'Inclusion. For 2015-2016, the amounts will be drawn from the Contingency Fund.

7.12 Support the development of the cultural sector

Québec's cultural sector generates jobs and economic innovation, enhances Québec's image and is a source of pride for Quebecers. Some of the greatest economic successes of Québec come from the cultural milieu.

To consolidate one of Québec's leading sectors and promote its growth in the years ahead, the government will support various cultural institutions and initiatives.

Increased support will thus be provided to Crown corporations in the cultural sector, including the Conservatoire de musique et d'art dramatique du Québec. Such institutions play a vital role in promoting culture, the economy, identity and tourism all across Québec.

To ensure better access to culture in the regions, additional support will be provided to cultural development agreements, to increase the scope of cultural services in municipalities and MRCs of Québec and stimulate cultural development in all regions of Québec.

Finally, the government will announce a plan to permit the consolidation of the publishing industry.

In this regard, Budget 2015-2016 provides additional appropriations of $12 million in 2015-2016 and 2016-2017 which will be allocated to the Ministère de la Culture et des Communications.

CLOSE TO $13 BILLION IN SUPPORT FOR THE QUÉBEC ECONOMY

The Economic Plan set out in Budget 2015-2016 includes new initiatives totaling $3.4 billion by 2019-2020. These are designed specifically to:

- reduce the tax burden on individuals;
- reduce the corporate tax burden;
- promote labour market performance;
- stimulate private investment;
- introduce new initiatives for communities and culture.

During this period, these measures will provide support of about $13 billion to the Québec economy, including:

- $2.6 billion by reducing the tax burden of individuals;
- $1.2 billion from reducing the corporate tax burden;
- $2.9 billion related to the maritime strategy;
- $540 million for measures related to communities and culture.

TABLE B.85

Support for the economy from measures in Budget 2015-2016 Economic Plan to 2019-2020
(millions of dollars)

	Cost of new initiatives	Ongoing investments
Reduce the tax burden on individuals	2 017	2 562
Reduce the corporate tax burden	504	1 160
Promote labour market performance	166	175
Stimulate private investment		
– Maritime strategy	171	2 904
– Québec Aluminum Development Strategy	33	150
– Government Social Economy Action Plan	27	103
– Improved tax holiday for major investment projects	10	4 035
– Other measures to support investment	166	1 000
Introduce new initiatives for communities and culture	309	540
TOTAL	**3 403**	**12 628**

Total support to the economy of nearly $21 billion since Budget 2014-2015

The measures in Budget 2015-2016 add to the initiatives rolled out by the government since Budget 2014-2015 in order to foster a positive environment for the creation of wealth and quality employment.

In Budget 2014-2015, the government focused on measures to:

- accelerate private investment, including by SMBs;
- reduce the administrative burden on businesses;
- launch a Québec maritime strategy;
- support the development of all Québec's natural resources;
- deploy the Digital Culture Plan;
- improve the effectiveness of government undertakings.

These actions represent more than $7 billion in economic support.

In continuity with Budget 2014-2015 measures, the measures in the fall 2014 *Update on Québec's Economic and Financial Situation* permitted the government to invest another $735 million in support for the economy. These measures have:

- facilitated the transition of Québec to a green economy;
- encouraged young farmers;
- prompted companies to invest in Québec.

The initiatives announced before Budget 2015-2016 thus added nearly $8 billion in additional support to the economy.

Furthermore, the measures in the Economic Plan for Québec presented in Budget 2015-2016 will provide a further $12.6 billion in support to the economy by 2019-2020.

Overall, the initiatives announced by the government since Budget 2014-2015 add up to nearly $21 billion in support to the Québec economy.

Support to the economy from measures announced by the government since Budget 2014-2015
(millions of dollars)

	Total
Budget 2014-2015	7 169
Fall 2014 *Update on Québec's Economic and Financial Situation*	735
Subtotal	**7 904**
Budget 2015-2016 Economic Plan	12 628
TOTAL	**20 532**

A plan supporting an average of 20 000 jobs annually

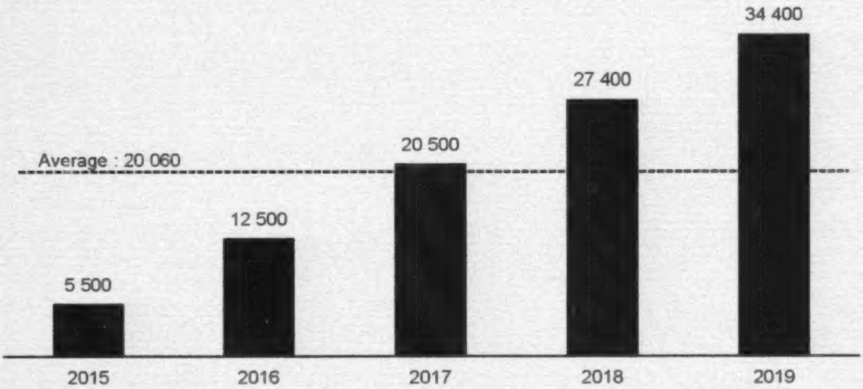
With the Economic Plan in Budget 2015-2016, the government remains committed to establishing an environment conducive to the creation of quality employment.

- New initiatives to stimulate private investment and lighten the tax burden on companies offer incentives to businesses to carry out new projects aimed at creating jobs.
- In addition, other measures in the Economic Plan, including reducing the tax burden on individuals, will inject significant sums into the Québec economy, which will promote jobs in all sectors by ensuring the demand for the products of Québec companies.

Over the next five years, the measures announced in the Economic Plan will support, on average, more than 20 000 jobs annually in all sectors of the Québec economy.

GRAPH B.8

Jobs created and sustained through measures in Budget 2015-2016 Economic Plan
(units)



☐ Budget 2015-2016 Economic Plan will lead to the creation of nearly 110 000 jobs by 2017

The full spectrum of measures announced in Budget 2015-2016 Economic Plan will help ensure that job creation in Québec remains strong in the years to come.

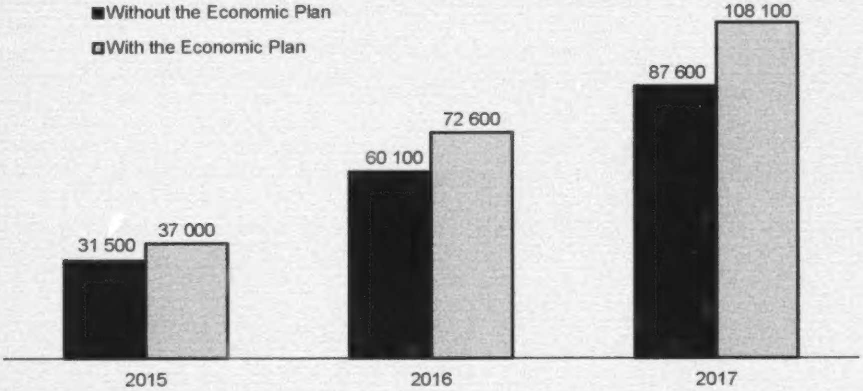
— Indeed, it is expected that over 35 000 jobs will be created per year for the next three years.

Thanks to the measures in this plan, job growth in Québec will be significantly higher than it has been for the past two years, when it averaged 27 000 jobs per year.

Through initiatives to create an environment conducive to the creation of quality jobs in Québec, the Economic Plan should result in the creation of close to 110 000 jobs in Québec by 2017.

GRAPH B.9

Cumulative job creation from Budget 2015-2016 Economic Plan
(units)



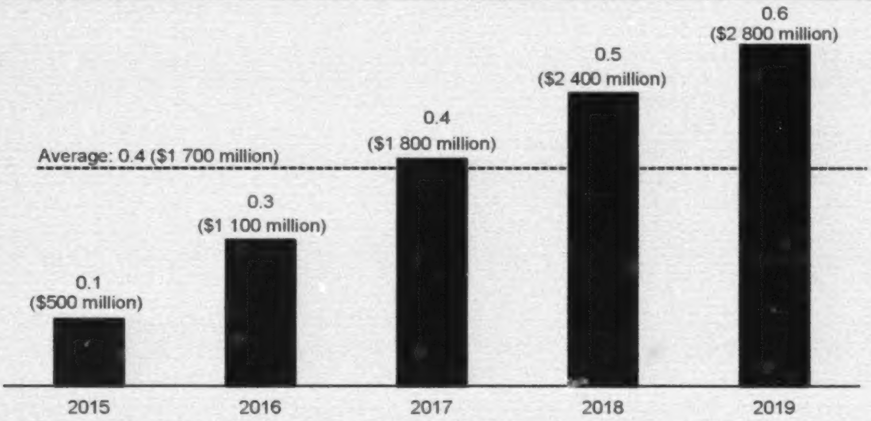
Support that promotes growth in economic activity

The government's Economic Plan will generate additional growth in nominal GDP of $1.7 billion on average.

— On average, the initiatives put in place by the government will represent annual support for economic growth equivalent to 0.4% of nominal GDP.

GRAPH B.10

Nominal GDP support from Budget 2015-2016 Economic Plan
(per cent)



APPENDIX 1: FINANCIAL IMPACT OF THE QUÉBEC ECONOMIC PLAN

TABLE B.86

Financial impact of the measures in the Québec Economic Plan announced in Budget 2015-2016
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Reduction of tax burden on Quebecers						
– Gradual elimination of the healthcare contribution	—	−80.5	−375.2	−549.0	−744.0	−1 748.7
– Establishment of a tax shield	—	−52.0	−52.1	−52.1	−52.3	−208.5
– Enhancement of the work incentive for experienced workers	—	−26.8	−56.4	−83.5	−83.2	−249.9
– Adjust the age tax credit to the realities of seniors	—	18.0	38.0	57.0	77.0	190.0
Subtotal	**—**	**−141.3**	**−445.7**	**−627.6**	**−802.5**	**−2 017.1**
Reduction in the corporate tax burden						
– Reduction in the tax burden on SMBs						
▪ Reduction in HSF contribution rate for service sector SMBs and reduction in the tax rate for primary sector SMBs	—	−17.1	−147.9	−215.6	−222.2	−602.8
▪ Refocus the small business deduction on job-creating SMBs	—	16.9	145.1	201.9	207.5	571.4
Subtotal	**—**	**−0.2**	**−2.8**	**−13.7**	**−14.7**	**−31.4**
– Make the tax system more favorable to investment						
▪ Gradual reduction in the general corporate tax rate, from 11.9% to 11.5%	—	−6.6	−36.0	−83.0	−122.3	−247.9
▪ Adjustments to the investment tax credit	—	—	28.0	40.0	−3.2	64.8
Subtotal	**—**	**−6.6**	**−8.0**	**−43.0**	**−125.5**	**−183.1**
– Ensure the effectiveness of sector-based tax incentives	−4.6	−57.2	−69.2	−72.4	−75.5	−278.9
– Support the activities of tax-advantaged funds	−6.3	−4.5	—	—	—	−10.8
Subtotal	**−10.9**	**−68.5**	**−80.0**	**−129.1**	**−215.7**	**−504.2**

TABLEAU 86 (cont.)

Financial impact of the measures in the Québec Economic Plan announced in Budget 2015-2016 (cont.)

(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New initiatives to promote labour market performance						
– Better match of training to business needs	−20.1	−29.0	−25.4	−24.5	−24.6	−123.6
– Strengthen the immigrant contribution to the labour market	−5.5	−8.5	−8.5	−10.0	−10.0	−42.5
Subtotal	**−25.6**	**−37.5**	**−33.9**	**−34.5**	**−34.6**	**−166.1**
New initiatives to stimulate private investment						
– Promote the development of key economic sectors	−19.7	−40.4	−46.4	−27.1	−25.2	−158.8
– Investment of more than $1.5 billion by 2020 under the Québec maritime strategy	−13.8	−17.8	−37.2	−48.5	−53.4	−170.7
– Foster the next generation of entrepreneurs	−2.0	−2.0	−17.0	−15.0	−15.0	−51.0
– Develop our natural resources	−7.1	−5.7	−5.7	−2.3	−5.0	−25.8
Subtotal	**−42.6**	**−65.9**	**−106.3**	**−92.9**	**−98.6**	**−406.3**
New initiatives for communities and culture						
– New initiatives for communities and culture	−41.9	−47.7	−42.1	−48.7	−128.8	−309.2
Subtotal	**−41.9**	**−47.7**	**−42.1**	**−48.7**	**−128.8**	**−309.2**
TOTAL	**−121.0**	**−360.9**	**−708.0**	**−932.8**	**−1 280.2**	**−3 402.9**

Note: A negative amount indicates a cost to the government.

APPENDIX 2: CHANGES IN QUÉBEC'S MAIN ECONOMIC GROWTH FACTORS

❑ Québec's population aged 15 to 64 will decrease

According to the latest demographic scenario of the Institut de la statistique du Québec,[26] Québec will see major demographic changes in the coming years.

— The 15 to 64 age group, which represents the potential labour pool, will slightly decrease. Its share of the total population will drop from 66.9% in 2015 to 64.6% in 2019.

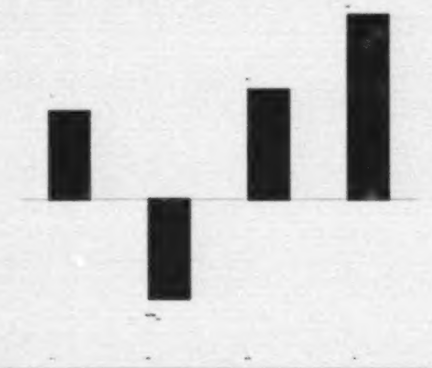
— The population structure will also change. People aged 55 and over will account for 34.0% of the population in 2019, compared with 31.8% in 2015.

To ensure continued economic growth in Québec, policies will be adopted to address these changes, with a view to increasing worker productivity and workforce participation in the labour market.

GRAPH B.11

Changes in Québec's population per age group between 2015 and 2019

(thousands of people)

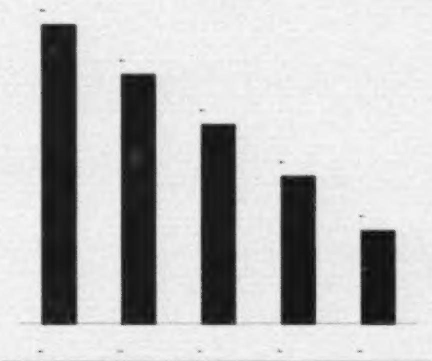


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

GRAPH B.12

Share of the population aged 15 to 64 in Québec's total population – 2015-2019

(per cent)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

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[26] INSTITUT DE LA STATISTIQUE DU QUÉBEC, *Perspectives démographiques du Québec et des régions, 2011-2061, édition 2014*, September 2014.

☐ Gains to be made in workforce participation

Québec employment has greatly improved over the past decades. The employment rate of people aged 15 to 64 was 71.9% in 2014, up 13.4 percentage points from 1976.

— In Canada, the employment rate, which posted 72.3% in 2014, has increased by 9.2 percentage points since 1976.

The gains made in terms of employment in Québec show that it is possible to further improve the level of employment among the population. However, there are variances with the rest of Canada, in particular in the 55 and over age group.

— The employment rate of Quebecers aged 55 and 59 was 66.0% in 2014, compared to 69.3% for the same age group in Canada.

— Quebecers aged 60 to 64 showed an employment rate of 45.1% in 2014, whereas Canadians in the same age group posted 50.0%.

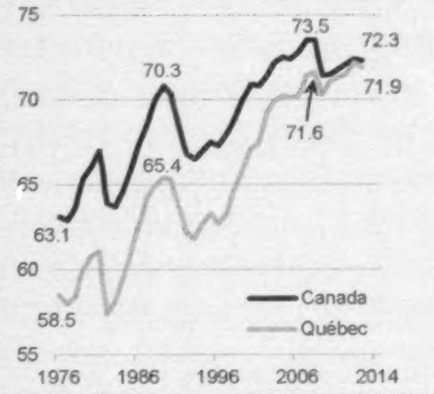
— Quebecers aged 65 to 69 showed an employment rate of 19.0% in 2014, compared to 24.8% for the same age group in Canada.

The population's employment rate can be increased through work incentive measures, workforce training, retention of experienced workers, as well as policies aimed at promoting full participation of immigrants in the labour market.

GRAPH B.13

Employment rate of people aged 15 to 64, Québec and Canada – 1976-2014

(per cent)

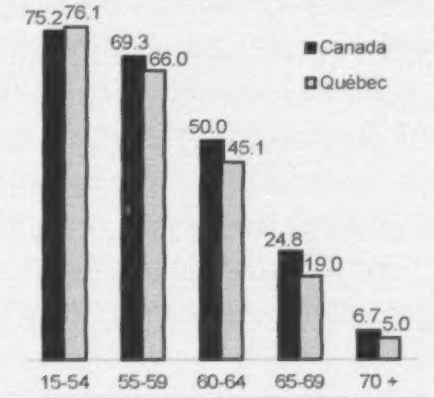


Sources: Statistics Canada and Ministère des Finances du Québec.

GRAPH B.14

Employment rate per age group, Québec and Canada – 2014

(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

☐ Increasing productivity

Increase in work productivity, defined here as production (GDP) per worker, is one of the main sources of economic growth of any country. Other than increasing the number of hours worked by employment, productivity can be increased through:

- better investment, which allows workers to increase production per time unit;
- improved labour quality, especially workforce training and practical experience;
- other determinants related, for example, to technological changes, work organization and competitive exports.

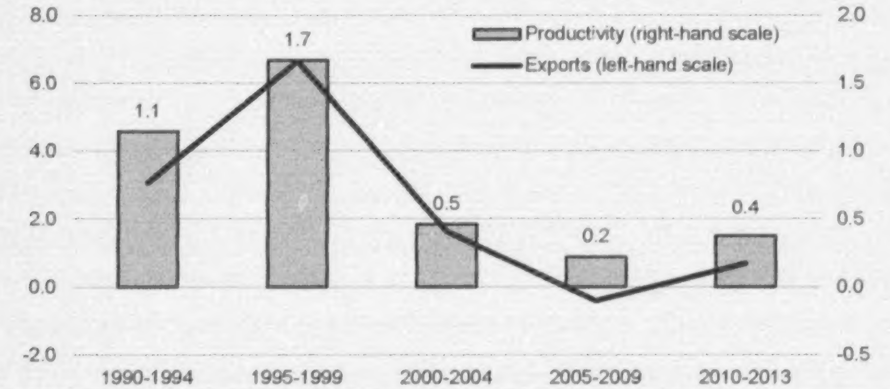
In the 1990s, Québec achieved significant productivity gains as a result of the boom in the manufacturing sector, supported by free-trade agreements and an exchange rate favourable to exports.

- Since 2000, productivity has grown at a slower pace due, in particular, to weaker growth in exports, feeling the pressure of international competition and the rising Canadian dollar.
- Nowadays, the U.S. economic recovery, the drop in oil prices and the depreciation of the Canadian dollar are opportunities to be seized by Québec exporting companies.

To increase productivity growth, the government is introducing tax measures that will foster investment and innovation, while promoting the development of key economic sectors.

GRAPH B.15

Changes in work productivity and exports in Québec
(average annual percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Section C

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2015 AND 2016

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1. ECONOMIC OUTLOOK FOR QUÉBEC

1.1 Economic growth gains momentum

After a disappointing 2013, the Québec economy entered a clear recovery phase. Following weak 1.0% growth in 2013, real GDP rose by 1.5% in 2014 and will expand by 2.0% in 2015 and 2016.

— In 2014, real GDP growth was driven primarily by exports. In particular, international goods exports on a custom basis rose in real terms by 10.9% in 2014.

In 2015 and 2016, economic growth will continue to benefit from a significant contribution from foreign trade, fuelled by stronger economic activity in the United States and depreciation of the Canadian dollar.

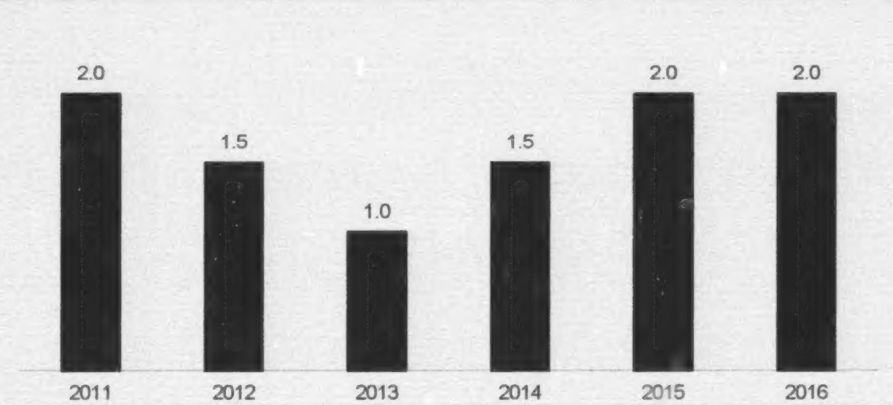
In addition, domestic demand, especially household consumption and investment, will make a bigger contribution to economic growth. The recent downturn in oil prices will have positive repercussions for Québec, which imports all of the oil it consumes.

— Households will be the main beneficiaries of the drop in crude prices. The $1.4 billion they save on oil products will allow them to buy products of other kinds.

— Businesses, particularly in the manufacturing sector, should benefit from lower costs for their energy inputs, which should lead to improved profitability and increased business investment.

CHART C.1

Economic growth in Québec
(real GDP, percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.2 A sharp drop in oil prices drove down the Canadian dollar

Oil prices began dropping in June 2014 and then plunged at year-end. The barrel price of Brent oil fell from US$115 in June 2014 to US$55 in mid-March, a decrease of 52.5%. The price of West Texas Intermediate (WTI) dropped by 58.2% over the same period, from US$107 to US$45 per barrel.

Two key factors contributed to the plunge in oil prices. First, the imbalance in global oil supply and demand that started in 2011 widened in 2014.

— The global economy saw more moderate growth after the recession, resulting in weaker growth in demand, whereas the oil supply rose sharply, in particular due to development of unconventional extraction methods in the United States.

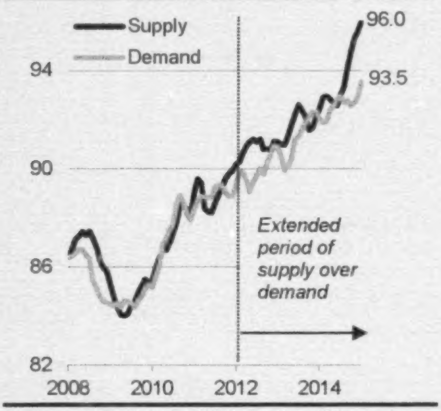
Second, the unexpected decision by the Organization of the Petroleum Exporting Countries (OPEC) in November 2014 to maintain production levels greatly affected market anticipations. The decision, which suggests that the gap between oil supply and demand will not close quickly, caused an even bigger drop in oil prices.

— By deciding to maintain production levels, some OPEC countries, notably Saudi Arabia, which benefits from lower production costs, were sending a signal that they wanted to preserve their share of the market, to the detriment of producers with higher production costs, in particular those using unconventional production methods.

CHART C.2

Global oil supply (excluding inventories) and demand

(millions of barrels per day, 3-month moving average)

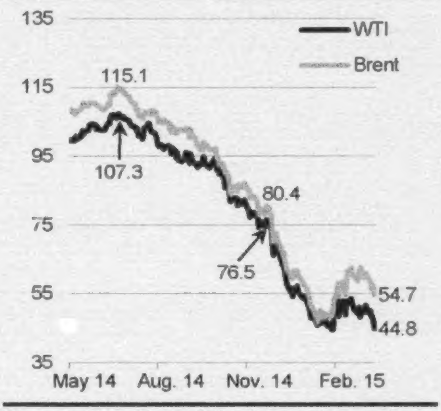


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.3

Change in oil prices

(U.S. dollars per barrel, daily data)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ Lower oil prices will persist

With the exception of the price decline that followed the 2008-2009 recession, the recent fall in oil prices was the biggest recorded since 1985-1986.

— Between November 1985 and July 1986, the price of Brent oil plunged by 67.5%, from US$29.1 per barrel to US$9.5 per barrel.

— Although it remained low, the price rallied during the following 12 months, settling at US$19.8 in July 1987. It took 58 months for the price of oil to climb back to its previous level.

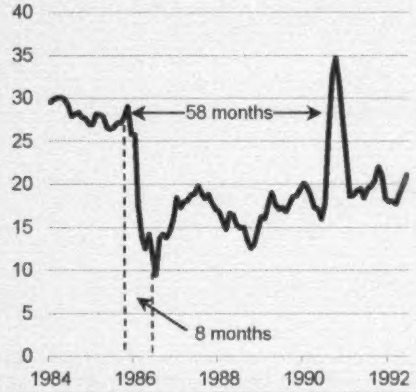
The reason for the slump in oil prices in 1985 was similar to the situation today, i.e. a supply shock brought on by, in particular, Saudi Arabia's decision to preserve its dominant position on the global production stage. The similarities between then and now suggest that oil prices could remain low for an extended period of time.

❑ Forecasters have lowered their oil price forecasts since the fall

The extent of the recent oil price decline surprised forecasters, who have slashed their forecasts since last fall. The average price forecast for WTI oil has been cut from US$81 per barrel to US$51 for 2015, a difference of US$30, and from US$83 per barrel to US$65 for 2016.

CHART C.4

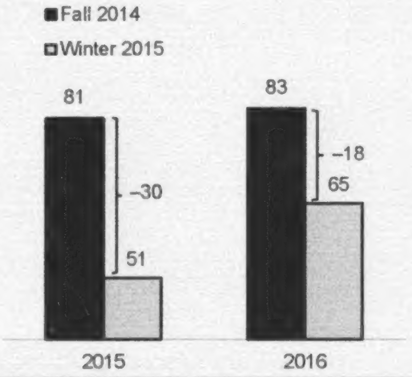
Brent price change – 1984 to 1991(1)
(U.S. dollars per barrel, monthly data)



(1) The increase in oil prices in 1990-1991 is attributable to Iraq's invasion of Kuwait.
Sources: Bloomberg, World Bank and Ministère des Finances du Québec.

CHART C.5

Average price forecasts for WTI
(U.S. dollars per barrel)



Source: Average compiled by the Ministère des Finances du Québec, including forecasts by seven institutions, as of December 2 for fall 2014, and March 13 for winter 2015.

☐ Oil prices will rise only gradually

Oil prices are expected to remain low in 2015 and 2016, increasing only gradually.

- Ministère des Finances du Québec assumptions imply that the price of Brent oil will average US$58 per barrel in 2015 and US$66 in 2016. The price of WTI oil is expected to average US$53 in 2015, before climbing to US$64 in 2016.

Global oil supply and demand are expected to gradually rebalance. On the one hand, oil supply should continue to be sustained by:

- OPEC's decision to keep its current production quota of roughly 30 million barrels per day (mb/d) unchanged;
- increased oil production in the United States and Canada, which should continue, although at a more moderate pace, owing to the recent development of production capacity, which will drive supply;
- high crude oil inventory levels, especially in the United States, which will continue to drive supply until they have been reduced.

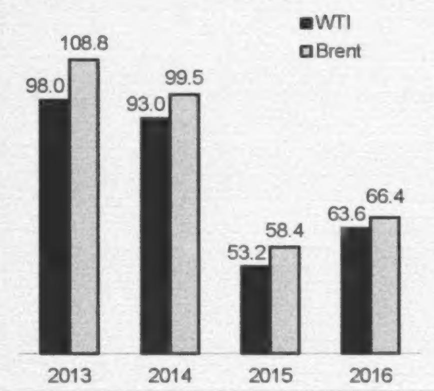
On the other, global demand should see only moderate growth with the brighter economic outlook for advanced economies.

According to the U.S. Energy Information Administration, the gap between global oil supply and oil demand, which stood at 0.86 mb/d in 2014, will persist and should stand at 0.97 mb/d in 2015 and 0.23 mb/d in 2016.

CHART C.6

Change in oil prices

(U.S. dollars per barrel)

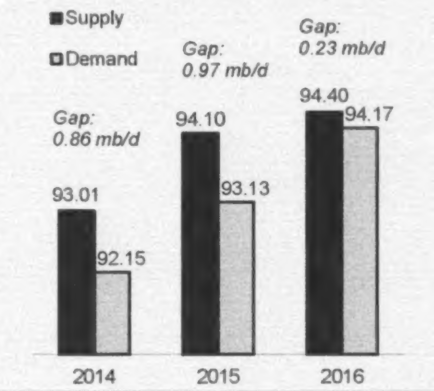


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.7

Global oil supply (excluding inventories) and demand

(millions of barrels per day)



Sources: U.S. Energy Information Administration and Ministère des Finances du Québec.

☐ The Canadian dollar will remain under pressure

In 2014, the average value of the Canadian dollar was 90.2 US cents, compared to 96.6 cents in 2013. The dollar should continue depreciating, averaging 78.1 US cents in 2015 and 77.1 US cents in 2016.

— The Canadian dollar depreciated 9% between June and December 2014, primarily due to the sharp decline in oil prices, which fell faster at the end of 2014.

— In January 2015, the loonie plunged nearly 10% to below 80 US cents after the Bank of Canada (BoC) cut its key interest rate. It was at 78.2 US cents in mid-March.

In the coming quarters, the Canadian dollar is expected to remain under pressure vis-à-vis the U.S. dollar.

— The Canadian dollar is influenced by oil prices. The gap between oil supply and demand will keep oil prices at relatively low levels for the next two years.

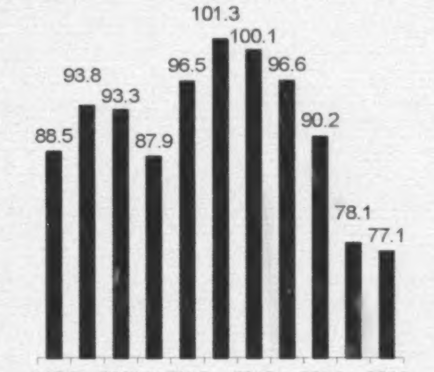
— The U.S. Federal Reserve is expected to start raising its key interest rate in the third quarter of 2015, whereas the BoC is expected to wait until the second quarter of 2016 before tightening its monetary policy.

— Lastly, the U.S. dollar should keep rising against major currencies as the U.S. economy continues to strengthen.

CHART C.8

Canadian dollar exchange rate

(U.S. cents, annual average)

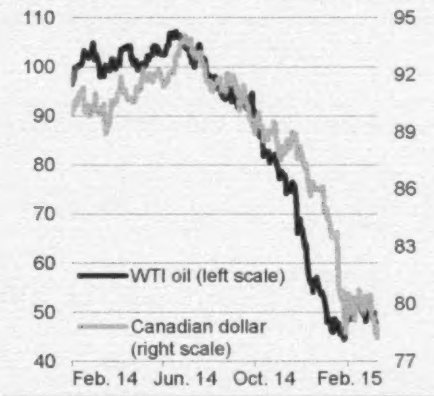


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.9

Price of WTI oil and Canadian dollar exchange rate

(U.S. dollars per barrel and U.S. cents, daily data)



Source: Bloomberg.

Effects of lower oil prices on the Québec economy

Positive effects on the Québec economy as a whole

Oil prices began their downward trend in June 2014 and plunged at the end of the year. The price of West Texas Intermediate (WTI) fell from US$107 in June 2014 to US$45 in mid-March 2015.

The drop in oil prices also caused the Canadian dollar to depreciate from 94.1 US cents in early July 2014 to 78.2 US cents in mid-March 2015.

This development will have a major positive impact on Québec's economy, yielding substantial gains for consumers and businesses.

Total savings of $3.7 billion on Québec's crude oil imports

Québec imports oil. It purchases roughly 320 000 barrels of crude a day. At the time of the Fall 2014 Update, the forecast price of WTI oil in 2015 was US$86.0 per barrel and the anticipated exchange rate, 86.2 US cents, putting the estimated cost of Québec's crude oil imports for 2015 at $11.6 billion.

- The revised forecasts for 2015, at US$53.2 for a barrel of crude and an exchange rate of 78.1 US cents, reduce the cost of Québec's crude oil imports by $3.7 billion. This represents savings equivalent to 1.0% of Québec's nominal GDP.

This gain will have repercussions for several components of the Québec economy.

- A portion will allow businesses to increase their profitability and finance their investments, while another portion will be reflected by lower prices for all consumer products and services.
- In addition, consumers will see a substantial reduction in their energy bill, especially through lower gas prices at the pump.

Cost of crude oil imports in Québec
(billions of dollars)

	Price of oil (U.S. dollars per barrel)							
Exchange rate (U.S. cents)	**40**	**53.2**	**60**	**70**	**80**	**86**	**90**	**100**
75	6.2	8.3	9.3	10.9	12.5	13.4	14.0	15.6
78.1	6.0	7.9	8.9	10.4	11.9	12.8	13.4	14.9
85	5.5	7.3	8.2	9.6	11.0	11.8	12.4	13.7
86.2	5.4	7.2	8.1	9.5	10.8	11.6	12.2	13.5
100	4.7	6.2	7.0	8.2	9.3	10.0	10.5	11.7

Source: Ministère des Finances du Québec.

Effects of lower oil prices on the Québec economy (cont.)

Total savings of $1.4 billion for Québec consumers

The decline in oil prices represents substantial savings for Québec consumers, who should see their energy bill go down by around $1.4 billion.

- Using the forecast in the Fall 2014 Update, household energy consumption would have been an estimated $18.7 billion in 2015.
- The falling oil prices in recent months should reduce the overall cost of household energy consumption to $17.3 billion in 2015.

Households are expected to use a significant portion of their savings to buy other goods and services, thereby fuelling domestic demand and creating opportunities for business investment, and save the remaining portion.

Cost of energy consumption for Québec consumers
(billions of dollars)

Exchange rate (U.S. cents)	Price of oil (U.S. dollars per barrel)							
	40	**53.2**	**60**	**70**	**80**	**86**	**90**	**100**
75	16.6	17.4	17.8	18.4	19.0	19.4	19.6	20.2
78.1	16.5	17.3	17.6	18.2	18.8	19.1	19.4	19.9
85	16.3	17.0	17.4	17.9	18.4	18.8	19.0	19.5
86.2	16.3	17.0	17.3	17.9	18.4	18.7	18.9	19.4
100	16.0	16.6	16.9	17.4	17.8	18.1	18.3	18.7

Source: Ministère des Finances du Québec.

1.3 Exports and household consumption will be the primary drivers of economic growth

The forecast 2.0% growth in real GDP in 2015 and 2016 will be buoyed by exports, which will continue to play a key role in economic expansion.

— After increasing by 0.4% in 2013, exports gained momentum in 2014, growing at a rate of 2.5%. The upturn in exports will continue over the next two years. The combination of robust exports and modest growth in imports will lead to a significant contribution by the external sector to economic growth.

— International goods exports, in particular, will see sustained growth of 6.0% in 2015 and 3.8% in 2016, following increases of 0.3% in 2013 and 6.5% in 2014. A stronger U.S. economy and weaker Canadian dollar will both spur Québec's international exports.

At the same time, the favourable economic conditions will stimulate domestic demand, which will make a greater contribution to economic growth during the next two years.

— Their savings on fuel purchases will allow households to buy more consumer goods and services.

— Non-residential business investment will pick up, driven by export and consumption growth as well as by improved profitability given businesses' lower fuel expenses.

TABLE C.1

Real GDP and its major components
(percentage change and contribution in percentage points)

	2014	2015	2016
Contribution of domestic demand	**1.3**	**1.7**	**1.4**
Household consumption	2.1	2.4	1.9
Residential investment	0.1	0.8	−1.5
Non-residential business investment	−2.5	2.8	3.8
Government spending and investment	1.0	0.0	0.0
Contribution from the external sector	**0.4**	**0.7**	**0.4**
Total exports	2.5	3.7	3.0
– International goods exports	6.5	6.0	3.8
Total imports	1.3	1.9	1.9
Contribution of inventories	**−0.3**	**−0.4**	**0.2**
REAL GDP	**1.5**	**2.0**	**2.0**

Note: Totals may not add due to rounding.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.4 Growth in consumer prices will remain moderate in 2015 and accelerate in 2016

Growth in the consumer price index (CPI) accelerated over the last year, rising from 0.7% in 2013 to 1.4% in 2014 with the improvement of the economy.

— In 2014, the increase in consumer prices was fuelled by stronger domestic demand and depreciation of the Canadian dollar, which pushed up the price of imported goods and services.

The CPI is expected to increase by 1.4% again in 2015. Total CPI inflation should be modest over the coming year, despite persistent depreciation of the Canadian dollar.

— The drop in oil prices brought down pump prices. The decrease will be reflected in the energy CPI, which is expected to drop by 7.6% in 2015.

— The decrease in the energy CPI should offset the upward pressure on the overall CPI through a lower Canadian exchange rate.

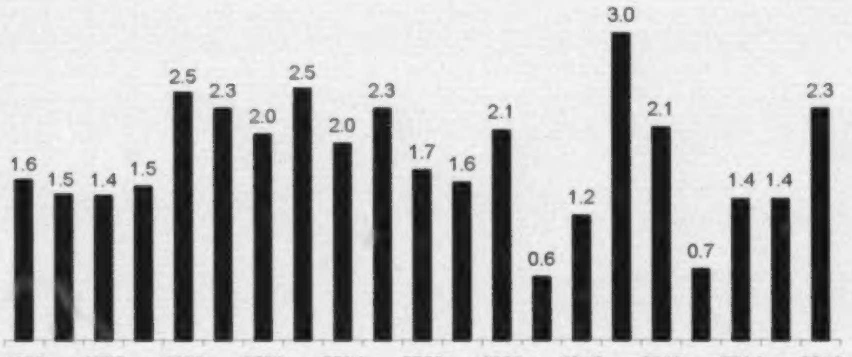
— CPI growth excluding food and energy should accelerate and rise from 1.1% in 2014 to 2.0% in 2015.

In 2016, the overall CPI should increase by 2.3%.

— A gradual increase in energy prices, continued depreciation in the Canadian dollar against the U.S. dollar due to monetary tightening in the United States, and robust economic growth in Québec will put upward pressure on inflation.

CHART C.10

Change in the consumer price index in Québec
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

1.5 Sustained nominal GDP growth

Real GDP growth of 2.0% in 2015 and 2016, combined with a rise in the GDP deflator, should increase nominal GDP by 3.8% in 2015 and 3.4% in 2016.

Note that the GDP deflator, i.e. the index that measures changes in GDP prices, is determined by two key factors:

- the prices of domestic demand, an important indicator of which is the CPI;
- the ratio between export prices and import prices, i.e. terms of trade, which influences the trade balance. For example, if export prices rise faster than import prices, the terms of trade improve and the trade balance deteriorates.

In 2015, the GDP deflator will benefit from the increase in the terms of trade, because lower crude oil prices will reduce import prices.

- Improved terms of trade should cut $2.7 billion from the trade deficit. Thus, the GDP deflator will rise by 1.8% in 2015, exceeding CPI growth of 1.4%.
- The 1.8% increase in the deflator, coupled with forecast 2.0% growth in real GDP, should lead to nominal GDP growth of 3.8%.

In 2016, the GDP deflator is expected to follow a different path due to the anticipated increase in oil prices.

- CPI growth is expected to accelerate to 2.3%. On the other hand, the anticipated decrease in the terms of trade caused by higher import prices should lead to a slight increase in the trade deficit. The net result should be a 1.4% increase in GDP prices.
- The combination of the increase in the GDP deflator and the 2.0% growth in real GDP is expected to result in a 3.4% increase in nominal GDP.

TABLE C.2

Economic growth in Québec
(percentage change)

	2015	2016
Real GDP	2.0	2.0
Price – GDP deflator	1.8	1.4
– CPI	1.4	2.3
– Terms of trade	0.3	–0.7
Nominal GDP	3.8	3.4

Note: The GDP deflator is not equal to the sum of CPI and terms of trade because it is also affected by other factors, including the cost of government spending and investments.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Change in GDP deflator and terms of trade in Québec

The GDP deflator reflects overall price changes in the economy as a whole, i.e. domestic demand prices and terms of trade. Falling oil prices and a lower Canadian dollar have a positive impact on the GDP deflator.

Effects of lower oil prices on the GDP deflator

Falling oil prices lead to lower import costs, and that has a positive effect on the GDP deflator. The effect is partly attenuated by weaker export and domestic demand prices. Sagging crude oil prices bring down the price of petroleum products and thereby reduce manufacturing and transportation costs.

- Overall, a decline in oil prices has a positive impact on the GDP deflator. The decrease in domestic demand prices is more than offset by improved terms of trade stemming from lower import costs.

Effects of a lower Canadian dollar on the GDP deflator

Depreciation of the loonie leads to an increase in import prices, which leads to a deterioration of the terms of trade and higher domestic demand prices. Moreover, the price of exports rises because the price of some export products is determined in U.S. dollars.

- The overall impact of currency depreciation on the GDP deflator is slightly negative, as the deterioration of the terms of trade outstrips the increase in domestic demand prices.

Effects of a weaker dollar and lower oil prices on Québec's GDP deflator

	Oil	Dollar	Total
Domestic demand	–	+	–
Terms of trade	+	–	+
GDP deflator	+	–	+

Source: Ministère des Finances du Québec.

Sustained growth in GDP deflator in 2015 and slower growth in 2016

In 2015, growth in the GDP deflator will be sustained by improved terms of trade, whereas growth in domestic demand prices will slow.

In 2016, the Canadian dollar will continue depreciating, while oil prices will begin to rise. The GDP deflator will grow at a slower rate due to higher import costs, which will lead to weaker terms of trade.

Change in GDP deflator and its components
(percentage change)

	2014	2015	2016
Domestic demand	1.9	1.6	1.8
Terms of trade	−0.1	0.3	−0.7
GDP deflator	2.0	1.8	1.4

Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

Change in GDP deflator and terms of trade in Québec (cont.)

Nominal GDP growth will be driven by improvement in the trade balance

Another way to illustrate nominal GDP developments is to break down level changes by component.

In 2015, growth in Québec's nominal GDP will be driven by a $2.7-billion improvement in the trade balance due, in particular, to lower prices for imported oil. In addition, inventories will decrease, whereas domestic demand will continue to increase strenghten.

In 2016, depreciation of the Canadian dollar, coupled with a gradual increase in oil prices, will lead to a slight deterioration of $0.2 billion in Québec's trade balance, slowing growth in nominal GDP.

Change in nominal GDP and its components
(billions of dollars)

	2014		2015		2016	
	Level	Var.	Level	Var.	Level	Var.
Final domestic demand	398.1	12.2	411.1	13.1	424.1	12.9
Variation in inventories	1.0	−0.4	−0.4	−1.3	0.2	0.5
Trade balance	−23.1	0.9	−20.4	2.7	−20.7	−0.2
Nominal GDP	**375.5**	**12.7**	**389.9**	**14.4**	**403.2**	**13.2**

Note: Totals may not add due to rounding.
Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

A similar situation has been seen in the past

Episodes of collapsing oil prices have been seen in the past. This was the case, for example, in 1986, when the barrel price of WTI plunged by 46.1%, and in 2009, when it fell by 38.0% during the recession.

- These episodes show that when oil prices drop, Québec's GDP deflator increases faster than the CPI.

Oil shocks and impact on Québec's economy
(percentage change)

	1986	2009	2015
Price of oil (WTI, in US$)	−46.1	−38.0	−42.8
Exchange rate (CAN$/US$)	1.6	6.1	15.6
CPI	4.8	0.6	1.4
- *Energy CPI*	*−7.2*	*−12.4*	*−7.6*
GDP deflator	7.2	1.2	1.8
Real GDP	1.8	−0.6	2.0
Nominal GDP	**9.2**	**0.6**	**3.8**

Sources: Institut de la statistique du Québec, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

1.6 Robust growth in household consumption

Growth in household consumption expenditure is expected to accelerate to 2.4% in 2015 and 1.9% in 2016, following a growth rate of 2.1% in 2014.

— In 2015, the $1.4 billion consumers will save as a result of lower energy prices will be used to purchase more goods and services.

Moreover, faster growth in households' real disposable income, which is expected to climb from 1.3% in 2014 to 2.5% in 2015, will boost consumption growth. Two main reasons for the growth are:

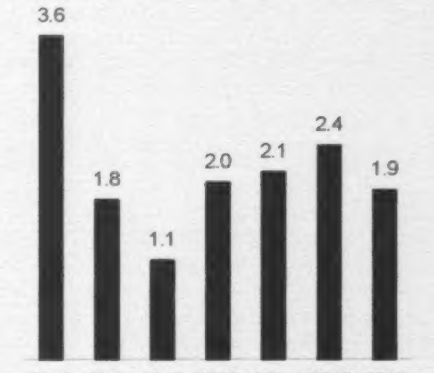
— the upturn in employment since May 2014, which should lead to faster wage growth;

— the measures announced by the federal government[1] this past October, representing nearly $1 billion more for Québec households.

The lower pump prices and the measures announced by the federal government represent a total gain of $2.4 billion for households in 2015. In 2016, household consumption expenditure should grow in lockstep with revenue growth.

CHART C.11

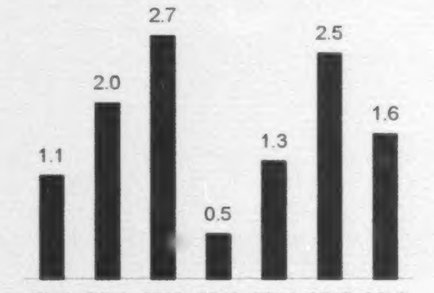
Household consumption expenditure in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.12

Household disposable income in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

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[1] Measures announced by the federal government on October 30, 2014, in particular income splitting for families, an increase in the Universal Child Care Benefit and an increase in the amounts that can be claimed as a deduction for childcare expenses.

1.7 Job creation continues its momentum

☐ Recovery in employment since May 2014

Québec's labour market saw a major turnaround in 2014. According to Statistics Canada's monthly Labour Force Survey:

- Québec lost 28 500 jobs from January to April 2014;
- the downward trend reversed starting in May 2014, with 51 700 jobs created from May 2014 to February 2015.

The unemployment rate followed a similar trend to that of job creation. In particular:

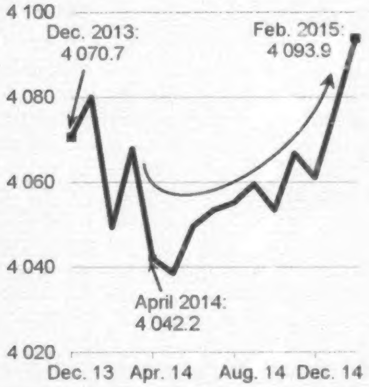
- the unemployment rate rose during the first half of 2014, going from 7.5% in January 2014 to 8.1% in June;
- the unemployment rate has been falling since June 2014, hitting 7.4% in February 2015, for a 0.7-percentage point (pp) improvement.

These developments show that Québec's economy is gradually getting stronger and there are signs that businesses will start hiring again. They point to stronger job creation in 2015 and 2016.

CHART C.13

Change in employment in Québec

(thousands)

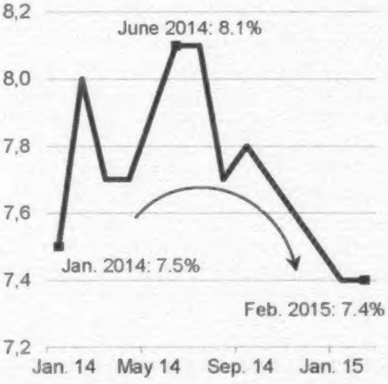


Source: Statistics Canada.

CHART C.14

Change in Québec's unemployment rate

(per cent)



Source: Statistics Canada.

☐ More sustained employment growth

The weak employment numbers in Québec since January 2013 continued into early 2014. However, the turnaround seen since May 2014 indicates that job creation should continue gaining traction in the coming years.

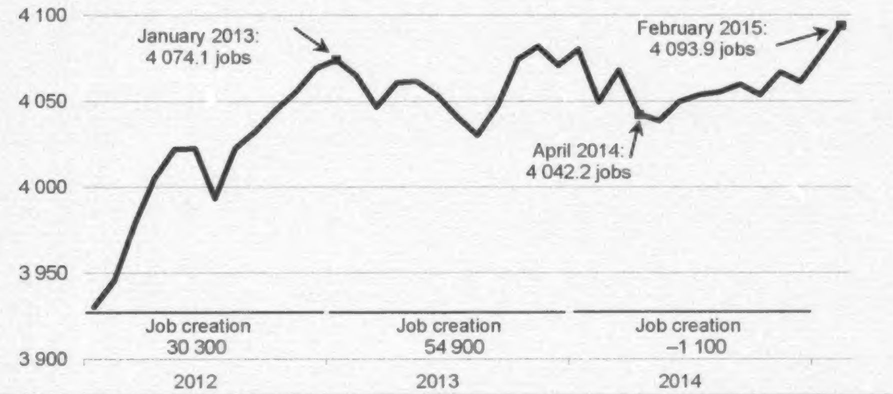
Stronger economic activity should encourage businesses to invest and to increase their hiring.

— In 2015, 37 000 new jobs will be created[2], an increase of 0.9%. The unemployment rate should fall to 7.5%.

— In 2016, 35 600 new positions should be added, an increase of 0.9%. The unemployment rate is expected to continue dropping, to stand at 7.3%.

CHART C.15

Change in employment in Québec
(level in thousands of jobs)



Sources: Statistics Canada and Ministère des Finances du Québec.

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[2] Annual statistics are presented using the average employment level for the reference year relative to the previous year.

1.8 Recovery in investment

❑ Signs of recovery seen in 2014

Positive developments in industrial production and sustained export growth led to stabilization of non-residential business investment in Québec in the second half of 2014.

— However, non-residential business investment experienced another downturn of 2.5% in real terms, in 2014, after decreasing by 6.3% in 2013.

Nevertheless, some investment sub-categories grew in 2014, such as investment in machinery and equipment, which rose by 0.4% in 2014 after decreasing by 7.6% in 2013.

— The growth in 2014 is primarily the result of an increase in the industrial capacity utilization rate in the manufacturing sector, which reached its pre-recession levels in Canada.

Another encouraging sign is the improvement in net operating surplus of corporations as a result of the acceleration in production and exports.

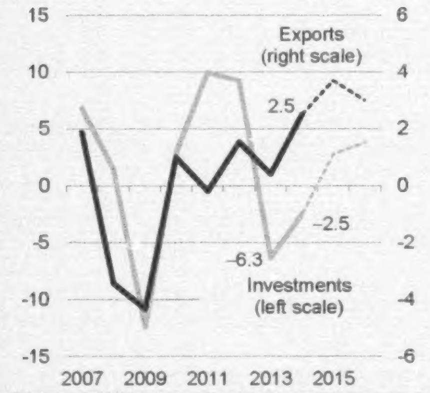
— Corporate profits in Québec were up 6.7% in 2014, after falling by over 10.0% in 2013.

— Improved corporate profitability and sustained export growth should stimulate investment.

CHART C.16

Exports and non-residential business investment in Québec

(percentage change, in real terms)

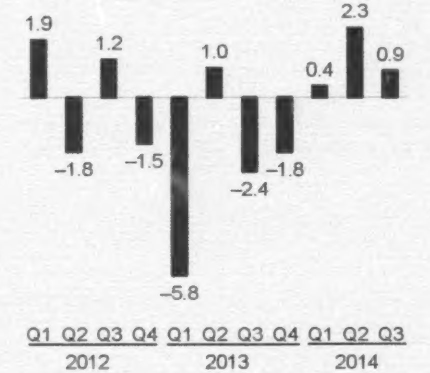


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.17

Business investment in machinery and equipment in Québec

(quarterly percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Stimulating investment – A global concern

The 2008-2009 recession was marked by a persistent weakening of investment in several economies. As a result, many governments have introduced measures to stimulate investment. Some initiated reforms of their tax system in order to face the stiffer international competition.

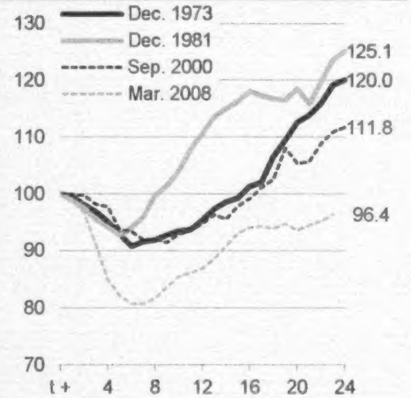
Investment remains below its pre-recession peak in several countries

Since the end of the 2008-2009 recession, business investment has not increased as quickly as during previous cycles in most member countries of the Organisation for Economic Co-operation and Development (OECD).

- Following the 1973, 1981 and 2000 recessions, business investment in real terms returned to the pre-recession level after no more than 17 quarters.
- Following the 2008-2009 recession, business investment in OECD member countries remained below the pre-recession peak even after 23 quarters. According to the OECD, despite favorable financing conditions for businesses, factors such as weak demand and existing uncertainties led businesses to be cautious with their investments.

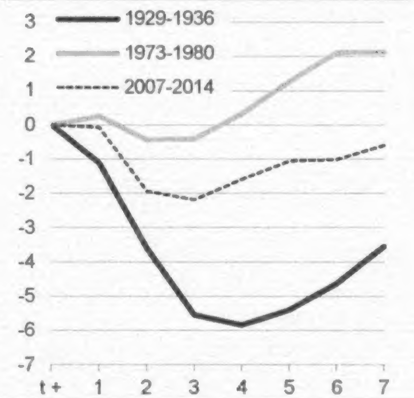
The same phenomenon can be seen in the United States, where non-residential investment as a share of GDP in 2014 was still below its pre-recession level. This situation is worse than after the 1973 recession.

Business investment in real terms, OECD countries
(t=100 corresponds to investment peak, quarterly data)



Source: OECD.

Share of non-residential investment in U.S. GDP(1)
(t=0 corresponds to pre-recession GDP high, difference in percentage points, annual data)



(1) Ratio in current dollars.
Sources: IHS Global Insight, OECD and Ministère des Finances du Québec.

Note: Some of the elements in this box are based on OECD Working Paper no. 1168, *Investment Gaps After the Crisis*, published in October 2014. Authors: Christine Lewis, Nigel Pain, Jan Strasky and Fusako Menkyna.

Stimulating investment – A global concern (cont.)

Weak investment: a problem recognized by international organisations

According to the International Monetary Fund, a higher level of investment is needed if the global economic recovery is to gain momentum after the sharp, persistent decline in investment following the last financial crisis.

Despite the higher corporate profits and liquidity in several economies, businesses are still hesitant to ramp up investment.

Consequently, at the G20 meeting in February 2015, the member countries reiterated their commitment to developing concrete strategies to stimulate investment and support their growth target.

Government actions taken since the end of the recession

Against this backdrop, a number of governments introduced measures to encourage businesses to increase their investments.

- In the **United States** the government passed the *American Recovery and Reinvestment Act* of 2009, which provided for accelerated depreciation for new business investments.
- In 2012, 15 of the 27 member countries of the **European Union**, including Germany, France and the United Kingdom, also introduced accelerated capital allowance measures.
- **Japan** introduced a tax credit (rate varying between 7% and 10%) in 2014 for small and medium-sized businesses that invest to improve their productivity.

Reform of tax systems to face international competition

The fierce competition to attract business investment led several jurisdictions to take steps to simplify their corporate tax system and lower corporate tax rates in order to remain competitive on the world stage.

- The **United States** is contemplating overhauling its tax system in the coming years. The proposed budget for 2016, submitted to Congress, would reduce the corporate tax rate from 35% to 28%, with U.S firms being among the highest taxed of the OECD member countries.
- **Japan** is cutting its corporate tax rate by 2.5 percentage points (pp) in 2015 and by a further 0.8 pp in 2016 to encourage businesses to invest in Japan and offer higher wages.

Moreover, in its recently released report *Going for Growth 2015*, the OECD recommended that **Canada** make greater use of environmental and value-added taxes to lower the corporate tax rate and personal income tax rates.

Stimulating investment – A global concern (cont.)

Québec has a similar problem with weak investment

After dropping by 6.3% in 2013, non-residential investment in real terms in Québec, in 2014, was just above its pre-recession level.

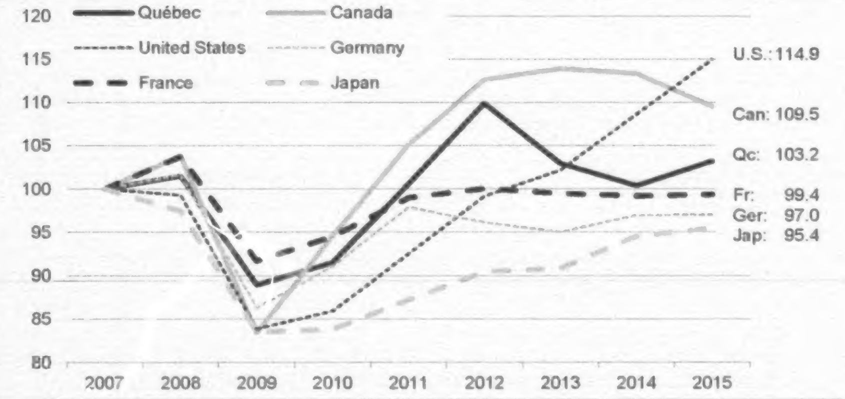
- This is a more favourable situation compared with other developed economies such as Germany, France and Japan, where non-residential investment had not yet returned to pre-recession levels.
- However, in Canada and, more recently, the United States, the recovery in non-residential investment was more robust than in Québec.

Québec needs to stand out in the context of global competition

Business investment needs to gain momentum to support Québec's economic growth. For that to happen, Québec must create winning conditions for businesses in terms of both taxation and the general business climate.

- This is especially true given that several countries have taken steps to spur business investment.

Non-residential business investment
(in real terms, index, 2007 = 100)



Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, Japan Economic and Social Research Institute, OECD and Ministère des Finances du Québec.

❑ An upturn in non-residential business investment in 2015

After contracting for two years in a row, non-residential business investment is expected to start growing again in Québec, rising by 2.8% in 2015 and 3.8% in 2016 in real terms.

A series of existing factors should help revive non-residential business investment:

— the solid performance of the U.S. economy and the depreciation of the Canadian dollar are good for exports;

— fuel savings as a result of lower oil prices will allow households to purchase more goods and services;

— businesses will also benefit from lower energy prices, which will increase their liquidity;

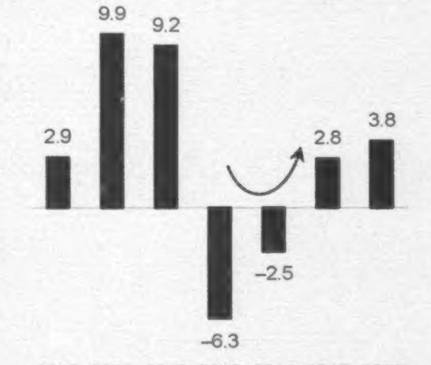
— highly favourable financing conditions will continue.

In particular, investment in machinery and equipment, which already picked up in 2014, should see more sustained growth due to a higher rate of capacity utilization.

— Investment in machinery and equipment is expected to increase in real terms by 4.8% in 2015 and 4.4% in 2016.

CHART C.18

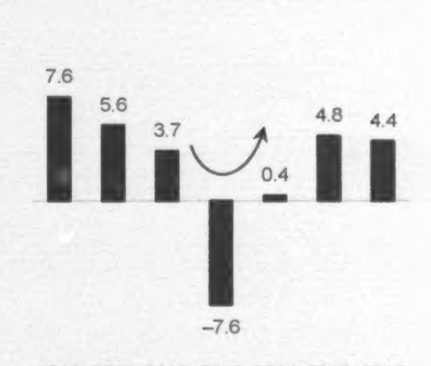
Non-residential business investment in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.19

Business investment in machinery and equipment in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Businesses are in a good position to invest

Large Canadian corporations[1] have built up substantial holdings of liquid assets over the past two decades.

Liquid assets held by Canadian businesses rose from $51 billion at the start of the 1990s (7% of GDP) to $675 billion in 2014, the equivalent of 34% of Canada's GDP. There are many causes for the increase, including:

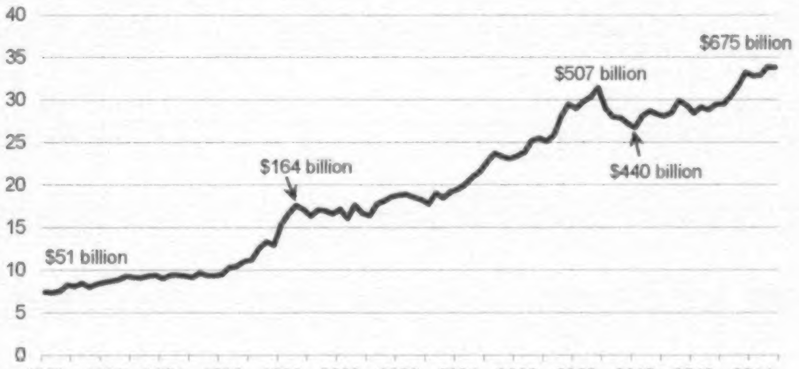
- increased profitability worldwide, despite economic cycles, primarily as a result of lower production costs, increased productivity and the relocation of some operations to emerging countries;
- growing economic and financial uncertainty, particularly as regards access to financing, which had impacts on management practices and the structure of business financing;
- low interest rates, which reduced the cost of holding liquidity.

However, weak global economic recovery, reflected in moderate growth in aggregate demand, partially explains why businesses are hesitant to increase their investments.

The sound financial position of Canadian and Québec companies is an asset

The fact that businesses have built up large holdings of liquid assets puts them in a good position to exploit investment opportunities.

Liquid assets(1) of non financial corporations – Canada
(as a percentage of GDP)



(1) Canadian and foreign currency and deposits.
Sources: Statistics Canada and Ministère des Finances.

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[1] Non-financial corporations.

❑ The government is taking initiatives to revive investment

Faster economic growth in the United States, a lower Canadian dollar, the drop in oil prices, businesses' sound financial position and advantageous financing conditions are all factors that will spur business investment in Québec.

With the good economic environment, the government must make sure that businesses have winning conditions for carrying out their investment projects. They especially need a stable, foreseeable business environment.

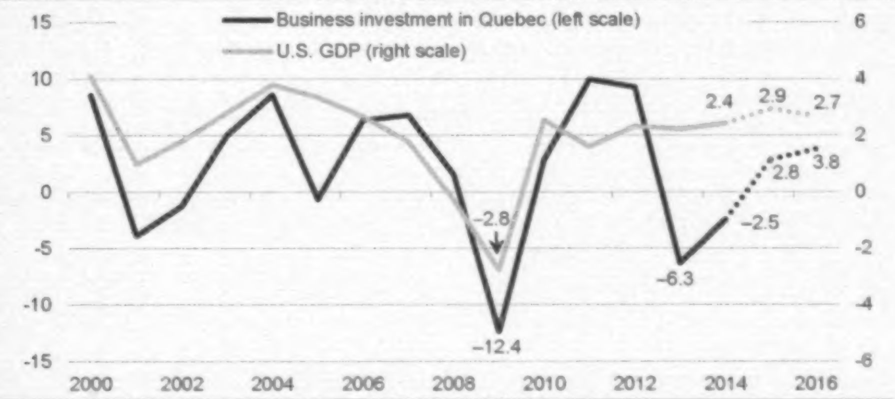
- That is the purpose of the Economic Plan, whose goal is to boost employment and stimulate investment and productivity, which will be the primary engines of Québec's economic growth.
- In addition, extension and enhancement of the tax holiday for major investment projects will be a springboard for major investments.

Furthermore, ongoing fiscal consolidation efforts, a continuing high level of investment in public infrastructure, and the government's affirmed will to ease Quebecers' tax burden will spur investment.

- These actions send a clear signal as to the economic and fiscal conditions that must prevail in Québec in the future.

CHART C.20

Non-residential business investment in Québec and economic growth in the United States
(annual percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

☐ The housing market is evolving in line with its demographic determinants

Residential investment is expected to expand by 0.8% in real terms in 2015, driven by higher spending on renovations and financing conditions that remain favourable.

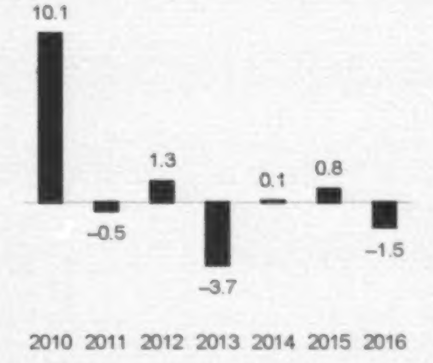
- Home renovation spending should keep rising, with forecast growth of 4.5% in 2015. The continued growth will be supported by the LogiRénov tax credit introduced by the Québec government last spring. In order to claim the tax credit, households must have recognized renovation work carried out by a qualified contractor under an agreement entered into before July 1, 2015.
- On the other hand, investment in new housing construction is expected to fall by 4.1% in 2015.
  - After several years in which housing starts outstripped the pace of household formation, developments in the residential sector point to a more balanced residential market.
  - As a result, the number of housing starts is expected to contract by 5.3% in 2015 and 2.8% in 2016, dropping to 36 800 in 2015 and 35 700 units in 2016. These levels are in line with the pace of household formation in Québec, which is roughly 40 000 households per year.

Furthermore, a gradual hike in interest rates should put on a drag on growth in residential investment, pushing it down by 1.5% in 2016.

CHART C.21

Residential investment in Québec

(percentage change, in real terms)

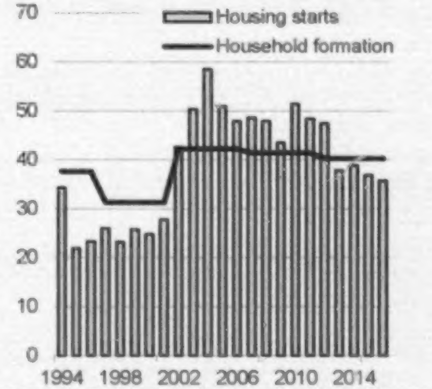


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.22

Housing starts and household formation in Québec

(thousands of units)



Sources: Institut de la statistique du Québec, Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

❑ Government investments remain at high levels

Public administrations in Québec (federal, provincial and local governments) will continue to maintain investments in infrastructure at high levels.

The total value of investments by all levels of government will remain near these levels in the coming years.

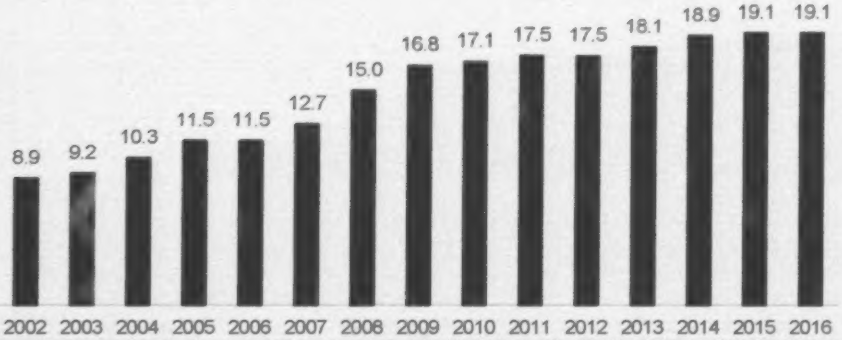
- Between 2007 and 2014, government investments expanded by nearly 50%, reaching $18.9 billion in nominal terms.
- In 2015 and 2016, government investments are expected to reach $19.1 billion.

More specifically, the amounts invested by the Québec government will make it possible to increase the public capital stock.

In addition, additional investments in transportation infrastructure may be made under an agreement between the Québec government and the Caisse de dépôt et placement du Québec.

CHART C.23

Government investments in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.9 Exports will maintain their momentum

Following 2.5% growth in 2014, exports should expand by another 3.7% in 2015 and then 3.0% in 2016, in real terms. The acceleration in exports, which remain one of the key engines of economic growth, will be a major catalyst for renewed business investment and job creation.

- Export growth will be driven by a stronger U.S. economy, Québec's main international trading partner, and the depreciation of the Canadian dollar.
- Québec's international goods exports will surge, growing by a forecast rate of 6.0% in 2015 and 3.8% in 2016, after rising by 6.5% in real terms in 2014.
- However, growth in interprovincial exports could be constrained by weaker demand from the rest of Canada, due to the decline in oil prices.

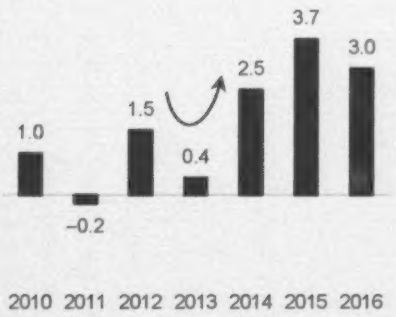
Imports are expected to gain traction, growing by 1.9% in real terms in 2015 and 2016, following 1.3% growth in 2014.

- For the next two years, import growth will be driven by more robust domestic demand due to, in particular, increased household consumption and investment in machinery and equipment.
- However, growth in imports will be curtailed by the Canadian dollar's depreciation, which makes foreign goods more expensive.

CHART C.24

Québec's total exports

(percentage change, in real terms)

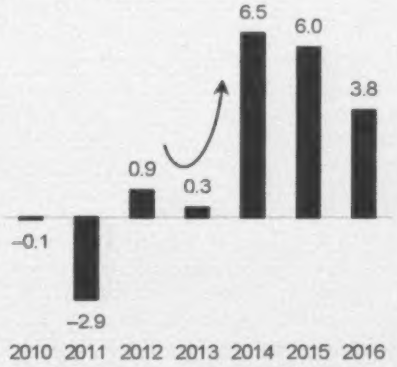


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.25

Québec's international goods exports

(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.10 Positive contribution of the external sector to economic growth

Net exports, which account for changes in exports and imports, contributed 0.4 percentage point (pp) to real GDP growth in 2014.

— This contribution of the external sector in 2014 stemmed from a combination of faster growth in exports and moderate growth in imports.

— In 2013, the positive contribution of the external sector stemmed in particular from a downturn in imports due to weak domestic demand.

The external sector is expected to make an even larger contribution, with net exports adding 0.7 pp to economic growth in 2015 and 0.4 pp in 2016.

— The positive contribution to economic growth is attributable to export growth, which will outstrip growth in imports.

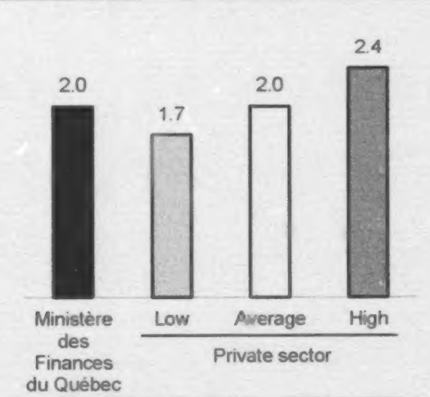
1.11 Comparison with private sector forecasts

The Ministère des Finances du Québec's economic growth forecast for 2015 and 2016 is similar to the average private sector forecast.

— The 2.0% growth in real GDP forecast by the Ministère des Finances for 2015 and 2016 is the same as the average forecast by the private sector.

CHART C.26

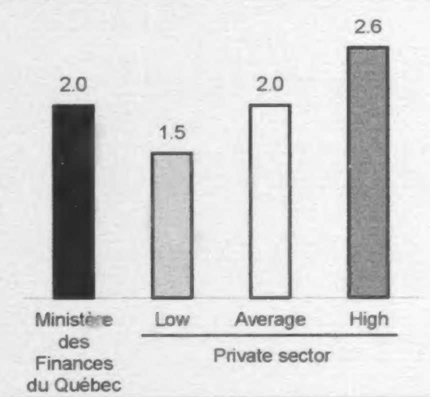
Economic growth in Québec in 2015
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 20, 2015, which includes the forecasts of 11 private sector institutions.

CHART C.27

Economic growth in Québec in 2016
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 20, 2015, which includes the forecasts of 11 private sector institutions.

TABLE C.3

Economic outlook in Québec

(percentage change, unless otherwise indicated)

	2014	2015	2016
Output			
Real gross domestic product	1.5	2.0	2.0
Nominal gross domestic product	3.5	3.8	3.4
Nominal gross domestic product (billions $)	376	390	403
Components of GDP (in real terms)			
Final domestic demand	1.2	1.6	1.3
– Household consumption	2.1	2.4	1.9
– Government spending and investment	1.0	0.0	0.0
– Residential investment	0.1	0.8	−1.5
– Non-residential business investment	−2.5	2.8	3.8
Exports	2.5	3.7	3.0
Imports	1.3	1.9	1.9
Labour market			
Population (thousands)	8 215	8 282	8 348
Population aged 15 and over (thousands)	6 802	6 852	6 897
Jobs (thousands)	4 060	4 097	4 132
Job creation (thousands)	−1.1	37.0	35.6
Job creation	0.0	0.9	0.9
Unemployment rate (%)	7.7	7.5	7.3
Employment rate (%)	59.7	59.8	59.9
Other economic indicators (in nominal terms)			
Household consumption	3.6	3.6	3.8
– Excluding food and rent	3.7	3.5	3.8
Housing starts (thousands of units)	38.8	36.8	35.7
Residential investment	2.4	3.5	0.5
Non-residential business investment	0.1	6.5	5.7
Wages and salaries	2.0	3.4	3.4
Household income	2.7	3.4	3.3
Net operating surplus of corporations	6.7	8.7	6.5
Consumer price index	1.4	1.4	2.3
– Excluding food and energy	1.1	2.0	1.7
GDP per capita ($)	45 715	47 084	48 295
Disposable income per capita ($)	27 325	28 118	28 877

Sources: Institut de la statistique du Québec, Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

1.12 Five-year economic outlook for 2015-2019

The five-year forecast of the Ministère des Finances du Québec is similar to the private sector forecast for real GDP growth, price increases and nominal GDP growth.

- Real GDP growth is expected to average 1.8% from 2015 to 2019, which is the same as the average private sector forecast.
- Nominal GDP is expected to grow at an average rate of 3.4% from 2015 to 2019, compared with the private sector forecast of 3.6% growth.

TABLE C.4

Québec's economic outlook – Comparison with the private sector
(percentage change)

	2014	2015	2016	2017	2018	2019	Average 2015-2019
Real GDP							
Ministère des Finances du Québec	1.5	2.0	2.0	1.7	1.6	1.5	1.8
Private sector average	1.6	2.0	2.0	1.8	1.7	1.6	1.8
Price change(1)							
Ministère des Finances du Québec	2.0	1.8	1.4	1.6	1.7	1.7	1.6
Private sector average	1.8	1.5	1.8	2.0	1.9	1.9	1.8
Nominal GDP							
Ministère des Finances du Québec	3.5	3.8	3.4	3.4	3.3	3.2	3.4
Private sector average	3.4	3.5	3.8	3.8	3.6	3.5	3.6

Note: Due to rounding, the average may not correspond to the result indicated.
(1) GDP deflator.
Source: Ministère des Finances du Québec summary as of March 20, 2015, which includes the forecasts of 11 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world. In 2013, exports accounted for over 45% of Québec's GDP.

— While Québec has diversified trade in recent years, Canada and the United States remain its main trading partners.

☐ The oil price decline will affect Québec's main trading partners differently

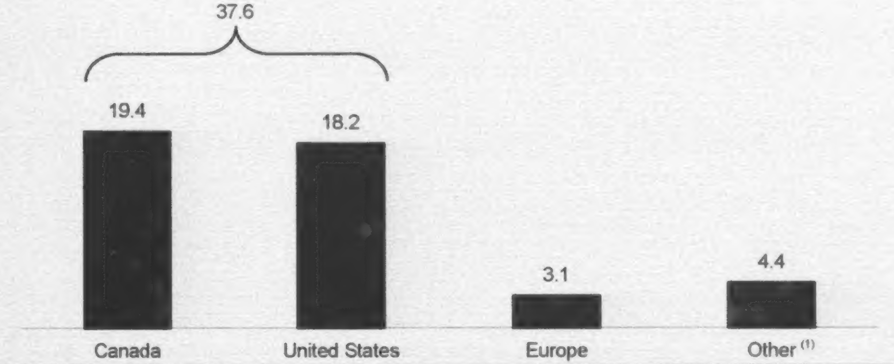
The drop in oil prices will affect Québec's main trading partners differently, since the United States is a net importer of oil whereas Canada is a net exporter.

— The U.S. economy will continue to strengthen. Economic expansion is expected to rise from 2.4% in 2014 to 2.9% in 2015 and 2.7% in 2016. Low oil prices will spur growth in consumer spending. The U.S. economy will also be supported by an increase in residential and non-residential investment.

— In Canada, the decline in oil prices will put a general drag on economic growth, which is expected to slow from 2.5% in 2014 to 2.0% in 2015 and then edge up to 2.2% in 2016. Manufacturing provinces, such as Québec and Ontario, will benefit from the lower oil prices as well as the stronger U.S. economy and weaker Canadian dollar. However, Canada's oil sector will suffer from the tumble in crude prices.

CHART C.28

Share of exports in Québec's GDP, by destination
(as a percentage of nominal GDP, 2013)



(1) Includes, in particular, China, Mexico, Japan, Brazil, India and South Korea.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

2.1 The economic situation in Canada

The Canadian economy has strengthened in recent years, with real GDP growth climbing from 1.9% in 2012 to 2.0% in 2013 and 2.5% in 2014. However, the recent slide in oil prices is expected to slow the economy's momentum.

— Real GDP growth is expected to slow to 2.0% in 2015. In 2016, a gradual recovery in energy prices is expected to accelerate economic growth to 2.2%.

The economic conditions will benefit manufacturing provinces. However, the lower oil prices are expected to have a negative impact overall for Canada, a major producer and exporter of oil.

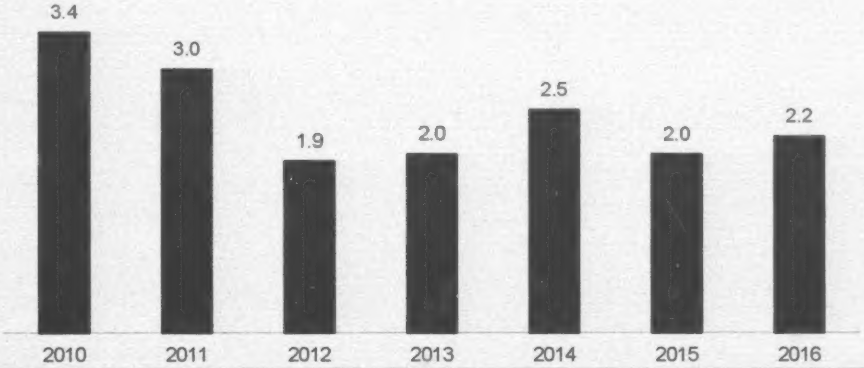
— Lower oil prices, a weaker Canadian dollar and a robust U.S. economy will benefit the Canadian manufacturing sector.

— Canadian households can use the money they save at the pump to buy other goods and services or increase their savings.

— However, the drop in oil prices will also have negative repercussions for the value of energy exports, which account for nearly 20% of Canada's total exports, as well as on investments in oil and gas extraction, which represent almost 30% of total non-residential business investment in Canada.

CHART C.29

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

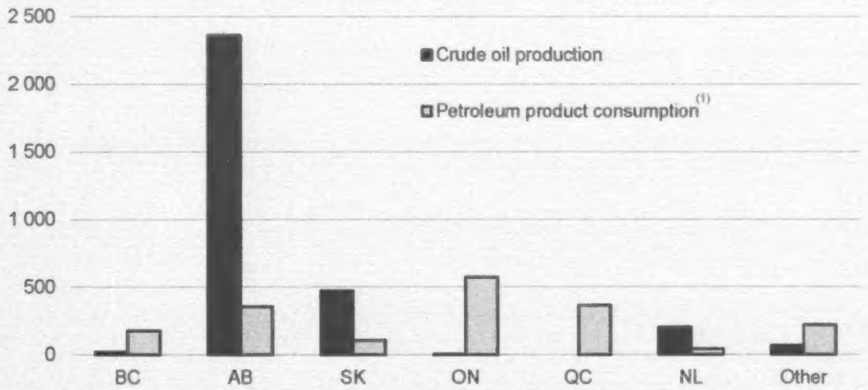
☐ Different effects on oil-producing provinces than on manufacturing provinces

The effects of falling oil prices on Canada's economy follow numerous channels and differ in the major oil-producing provinces—Alberta, Saskatchewan and Newfoundland and Labrador—who represent 97% of Canada's total crude oil production, than in the rest of the provinces, which are essentially oil importers.

- In Canada as a whole, consumers will benefit from lower energy bills.
- In the main oil-producing provinces, lower energy prices are expected to limit economic growth through a significant decline in value of their exports and investments in the energy sector as well as a decrease in government revenues.
- By contrast, the provinces that import oil should benefit from the drop in crude prices through a lower energy import bill.
  - This is particularly the case for provinces whose economy is more dependent on manufacturing, such as Québec and Ontario. In both these provinces, falling oil prices will lower businesses' operating costs.
  - These provinces will also gain from stronger U.S. demand and the weaker Canadian dollar, which will boost exports and support investment.

CHART C.30

Oil production and consumption of petroleum products in 2012
(thousands of barrels per day)



(1) Domestic sales of refined petroleum products.
Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Falling oil prices will have a major impact on Canada's nominal GDP growth in 2015

After expanding by 4.4% in 2014, nominal GDP is expected to grow by 1.9% in 2015 and 4.5% in 2016. In 2015, growth in Canada's nominal GDP will be significantly slowed by changes in the GDP deflator.

The slump in oil prices will:

- put downward pressure on domestic demand prices through lower prices for petroleum products;
- lead to major deterioration in the terms of trade through lower export prices of oil products. The decline in the terms of trade is expected to lead to deterioration in the trade balance.

The combination of these factors will lead to a decrease in the GDP deflator, which explains the weak growth in Canada's nominal GDP in 2015.

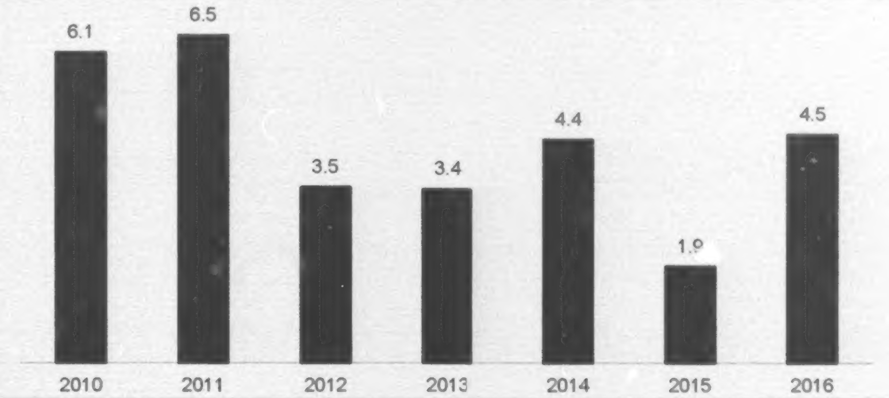
Nominal GDP is expected to accelerate in 2016. A slight upturn in oil prices is anticipated, which should have a positive impact on price increases.

However, the growth paths for nominal GDP in Canada in 2015 will be different for oil-producing provinces and provinces that import oil.

- The lower oil prices will reduce export prices of oil-producing provinces, leading to deterioration in their trade balance. By contrast, the non-oil-producing provinces will see their import costs go down and their trade balance improve.

CHART C.31

Nominal GDP in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

Terms of trade in Canada

Terms of trade are the ratio of export prices to import prices. This ratio corresponds to the value of imports that can be purchased for every dollar of export.

- For example, terms of trade deteriorate when the rise in export prices is smaller than the rise in import prices.

Significant decline in Canada's terms of trade in 2015, followed by a rebound in 2016

The combined effects of the drop in oil prices and depreciation of the dollar will have negative consequences for Canada's terms of trade in 2015.

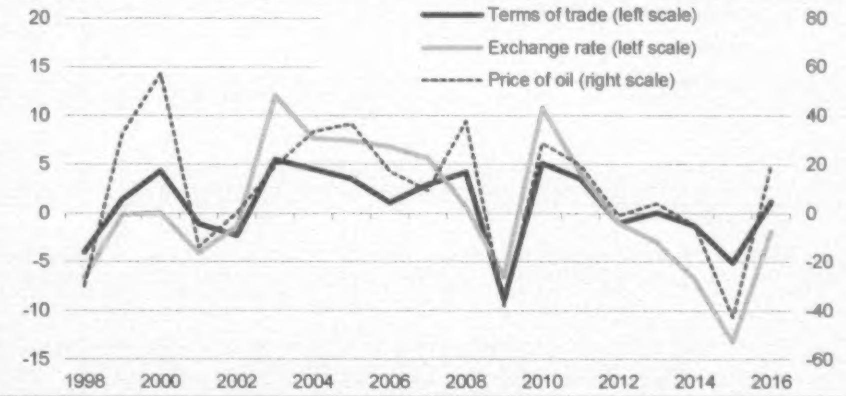
- Canada is a net oil exporter. The decline in oil prices is expected to drive down export prices.
- In addition, depreciation of the Canada dollar will drive up import prices.

The combination of lower export prices and higher import prices will lead to a decline in the terms of trade. This decline should in turn lead to deterioration in Canada's trade balance, which will slow nominal GDP growth. In nominal terms, Canada's trade deficit is expected to increase from $18 billion in 2014 to $30 billion in 2015.

In 2016, the anticipated gradual increase in oil prices should improve terms of trade, fostering an acceleration of nominal GDP growth.

Furthermore, historical data reveal a strong link between oil prices, the value of the loonie and Canada's terms of trade. For example, when the first two variables decline, terms of trade deteriorate.

Changes in the price of oil,(1) the exchange rate and terms of trade in Canada
(annual percentage change)



(1) Barrel price of WTI oil in U.S. dollars.
Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

❑ Continued growth in the Canadian labour market

Following a growth rate of 0.6% in 2014, job creation is expected to increase by 1.0% in 2015, adding around 182 400 jobs to the economy.

- The weaker Canadian dollar and robust U.S. economy will foster job creation in Canada's manufacturing sector.
- However, a decrease in production and investment in the oil sector could lead to job losses in the sector.

The Canadian economy is expected to pick up in 2016, providing further stimulus for the labour market. Consequently, employment should grow by 1.2%, with the creation of 209 400 jobs.

❑ Growth in final domestic demand will remain modest

Final domestic demand will feel the effects of the oil price drop in 2015.

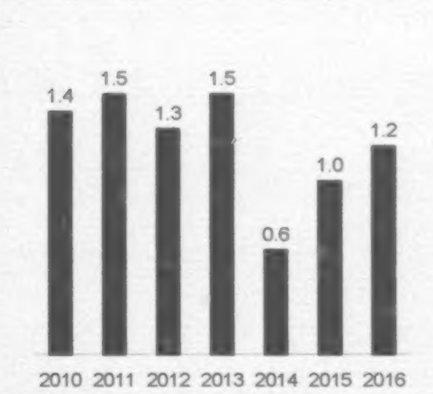
- Household consumption will remain sustained overall, but the contraction in non-residential business investment in the energy sector and the control of government spending are expected to hamper the contribution of domestic demand to economic growth in 2015.

Domestic demand is expected to strengthen in 2016. Higher oil prices should boost investment in the energy sector in addition to growth in manufacturing investment.

CHART C.32

Job creation in Canada

(percentage change)

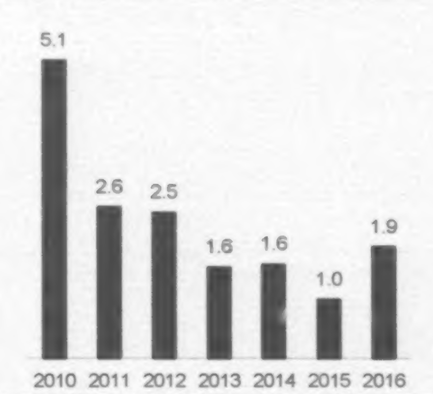


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.33

Contribution of final domestic demand to real GDP growth in Canada

(percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Household consumption will remain sustained

Growth in spending by Canadian households accelerated from 2.5% in 2013 to 2.8% in 2014 in real terms. Household spending is expected to increase by 2.5% in 2015 and 2.1% in 2016.

— In 2014, consumer spending was fuelled by low interest rates and a high level of consumer confidence.

— In 2015, fuel prices will drop. Canadian households will spend part of the money they save on energy to buy other consumer goods.

— In addition, the roughly $4.6 billion in tax relief provided to households by the federal government will give Canadians more disposable income.

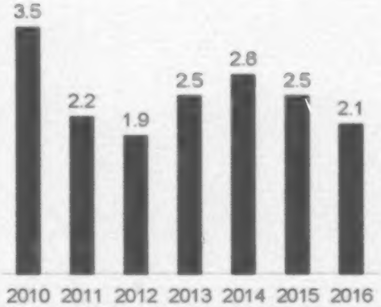
— However, job losses in the oil sector could dampen growth in consumption in the oil-producing provinces in 2015.

In 2016, the anticipated increase in consumer prices, particularly for energy, is expected to curtail overall growth in household spending.

— In addition, the projected hike in interest rates is expected to temper demand for credit by Canadian households.

CHART C.34

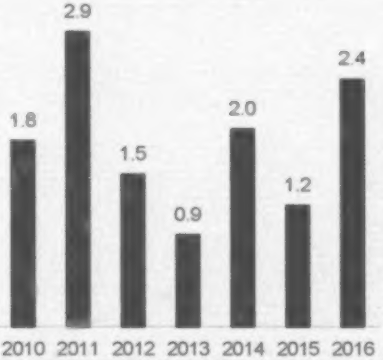
Consumer spending in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.35

Consumer price index in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Stabilization in the real estate sector

The Canadian housing market was surprisingly robust in 2014. Low interest rates spurred a 2.8% increase in real terms in residential investment. However, residential investment is expected to contract by 2.6% in 2015 and 1.1% in 2016.

— A gradual slowdown in the Canadian residential market is therefore expected. The pent-up demand has been largely filled in recent years thanks to favourable financing conditions.

— Furthermore, the real estate market could slow more rapidly in the oil-producing provinces than in the rest of Canada.

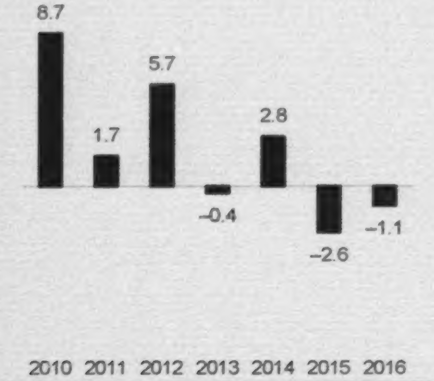
❑ Government investments will remain at high levels

Public investments in Canada will remain at high levels for the next two years, especially thanks to investments by the provincial and local governments.

— The value of investments by all levels of government in Canada is expected to climb from $74.0 billion in 2014 to $78.5 billion in 2016.

CHART C.36

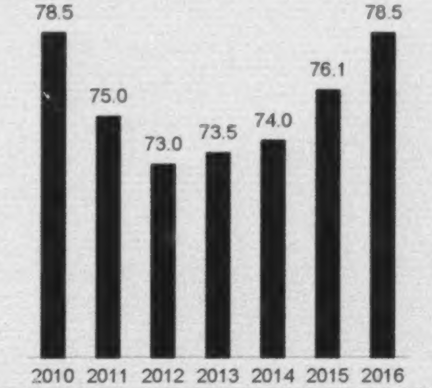
Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.37

Government investments in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

☐ Non-residential business investment will be affected by the situation in the oil sector

Oil and gas extraction accounts for nearly 30% of all non-residential business investment in Canada. This component of domestic demand will likely be affected by the decline in oil prices.

As a result, non-residential business investment is expected to decrease by 3.3% in real terms in 2015, after going down by 0.1% in 2014. The contraction in 2015 is essentially attributable to a contraction in investment in the energy sector, which is expected to fall by 13.6%.

- The plunge in oil prices since June 2014 has affected several investment projects in the oil sector by making them no longer profitable. A number of projects have already been postponed.
- However, decreased investment in the energy sector will be tempered by increased investment by manufacturing businesses.
- Manufacturing businesses should benefit from the lower cost of oil, strengthening U.S. demand and weaker Canadian dollar.

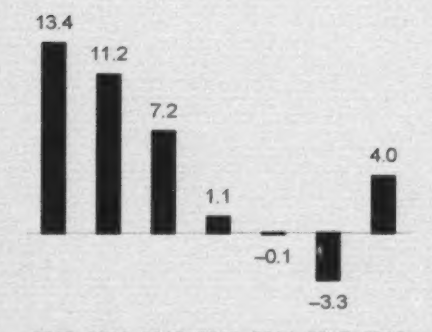
In 2016, non-residential business investment is expected to increase by 4.0%.

- A rise in oil prices should drive a gradual resumption of investment in the energy sector, in addition to continued growth in investment in the manufacturing sector.

CHART C.38

Non-residential business investment in Canada

(percentage change, in real terms)

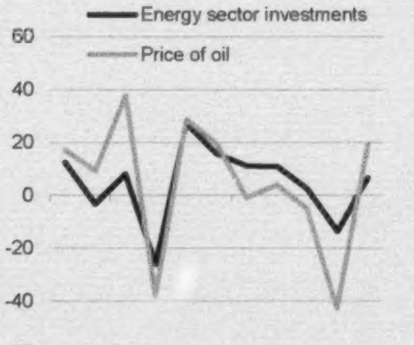


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.39

Non-residential business investment, in real terms, in the energy sector and barrel price of oil[(1)]

(percentage change)



(1) Barrel price of WTI oil in U.S. dollars.
Sources: Statistics Canada and Ministère des Finances du Québec.

☐ Continuing growth in exports

Canadian exports should see a growth rate in real terms of 5.1% in 2015 and 3.7% in 2016.

— A weaker loonie and robust U.S. economy will boost manufacturing exports.

— In the short term, the decline in oil prices is not expected to affect the volume of energy product exports. However, export growth in nominal terms will be slowed by the lower price of petroleum products.

Imports are expected to grow in real terms by 1.4% in 2015 and 2.4% in 2016.

— The modest growth in imports in 2015 is attributable to, in particular, depreciation of the Canadian dollar and more modest growth in Canadian domestic demand.

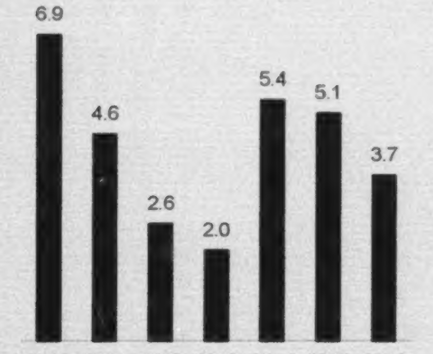
Consequently, the external sector is expected to contribute 1.1 percentage point (pp) to Canada's economic growth in 2015 and 0.4 pp in 2016.

— Despite the increase in export volumes, lower oil prices will drive an increase in Canada's trade deficit, which is expected to jump from $18 billion in 2014 to $30 billion in 2015.

CHART C.40

Exports in Canada

(percentage change, in real terms)

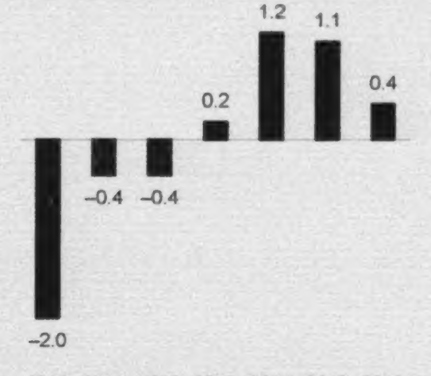


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.41

Contribution of net exports to Canada's real GDP growth

(percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Bank of Canada eases its monetary policy

In January 2015, the Bank of Canada (BoC) surprised financial markets by lowering its target for the overnight rate by one-quarter of a percentage point, bringing it down to 0.75%. The key interest rate had been at 1% since September 2010.

- The BoC said that it based its decision on the negative impact of lower oil prices on Canada's economic growth outlook and inflation profile.

Financial markets reacted strongly to the cut in the target overnight rate.

- The yield on 2-year Government of Canada bonds, which is highly sensitive to changes in monetary policy, dropped to below that of 2-year U.S. bonds for the first time since 2009.
- In the wake of the cut, the Canadian dollar tumbled, standing at less than 79 US cents in mid-March, its lowest level in six years.

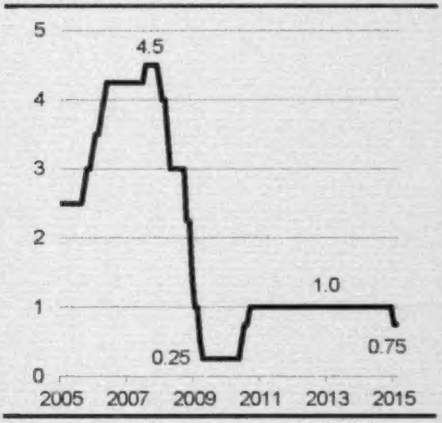
Canada's long-term interest rates have also dropped over the last few months, reaching historic lows at the beginning of February.

- Besides the cut in the BoC's key interest rate, the sharp downturn in bond yields is attributable to monetary easing by the European Central Bank and lower inflation expectations related to sliding oil prices.

CHART C.42

Target for the overnight rate

(per cent)

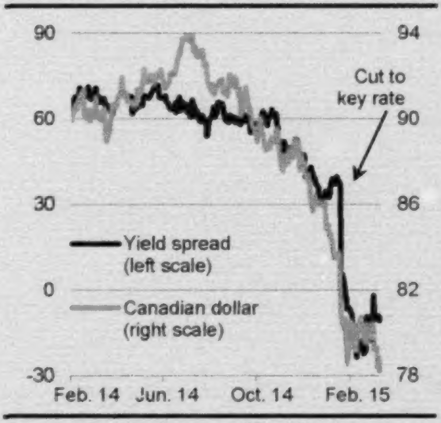


Source: Statistics Canada.

CHART C.43

Spread between Canadian and U.S. 2-year bond yields and Canadian dollar exchange rate

(basis points and U.S. cents)



Sources: Statistics Canada and Bloomberg.

❑ Financing conditions will remain accommodating

The adverse effects of the oil price slump on the Canadian economy should encourage the BoC to maintain an accommodative monetary policy for an extended period, particularly considering the following factors:

- low oil prices should lead to a downturn in business investment and slower growth in Canada's nominal exports in 2015;
- residential investment is expected to fall this year, particularly in regions whose production is energy-oriented.

Given the persistently weak inflationary pressures and the fact that Canada's economy is being hit by the sharp drop in the price of oil, the BoC is expected to wait until the second quarter of 2016 before it starts tightening its monetary policy.

- For its part, the U.S. Federal Reserve is expected to begin raising its key interest rate in the third quarter of 2015. The divergence between monetary policies will put downward pressure on the Canadian dollar.

Furthermore, higher U.S. bond yields related to the expected hike in the U.S. policy rate in 2015, as well as gradually higher inflation expectations in Canada during 2015, should contribute to a gradual increase in Canadian bond yields.

- Consequently, after averaging 2.2% in 2014, the yield on 10-year Government of Canada bonds should be 1.7% in 2015 and 2.6% in 2016.

TABLE C.5

Canadian financial markets
(average annual percentage rate, unless otherwise indicated)

	2013	2014	2015	2016
Target for the overnight rate	1.0	1.0	0.6	0.8
3-month Treasury bills	1.0	0.9	0.6	0.9
10-year bonds	2.3	2.2	1.7	2.6
Canadian dollar (in U.S. cents)	96.6	90.2	78.1	77.1

Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

2.2 The economic situation in the United States

☐ Stronger economic growth

After standing at 2.4% in 2014, the U.S. real GDP growth rate is expected to accelerate to 2.9% in 2015 and then be 2.7% in 2016. Over the next two years, U.S. economic growth will be driven by increased domestic demand stemming from:

— stronger consumer spending fostered by improved labour market conditions and the recent drop in gasoline prices, which increases consumers' purchasing power;

— the sharp rise in residential investment as the pace of household formation picks up;

— increased business investment fuelled by the need to increase production capacities to meet demand;

— higher spending by the public sector which, for the first time since 2010, will make a positive contribution to economic growth in 2015.

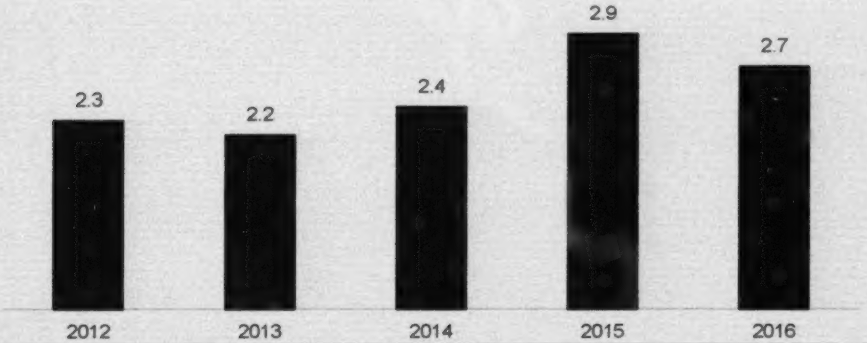
However, a number of factors will dampen U.S. real GDP growth, including:

— the still-difficult international context and the appreciation of the U.S. dollar, which will moderate export growth;

— the slowdown in oil production in the United States due to low oil prices, which will curb investments in this sector.

CHART C.44

Economic growth in the United States
(real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances du Québec.

Domestic demand holds a significant place in the U.S. economy

Despite the uncertainty still surrounding the global economy and the higher U.S. dollar, which hurts the external sector, the U.S. economy is expected to grow by 2.9% in 2015. This is a higher growth rate than that seen in 2014, which will exceed the 2.2% expansion forecast for advanced economies as a whole.

The United States is less exposed to fluctuations in the global economy

The United States is less exposed to fluctuations in the global economy than several other economies because exports account for a smaller share of its GDP.

- U.S. exports represent 13.4% of GDP, compared to 45.8% in Québec and 31.6% in Canada. In the Organisation of Economic Co-operation and Development (OECD) member countries as a whole, exports represent 28.3% of GDP.[1]
- On the other hand, domestic demand and, in particular, consumption, are more important in the United States. The share of consumption in GDP is 68.5%, compared to 60.4% in Québec, 55.7% in Canada and 61.8% in OECD countries as a whole.

Stronger domestic demand is expected to drive U.S. economic growth and help Québec exports

U.S. domestic demand will see robust growth, reaching a rate of 3.1% in 2015 and 2.9% in 2016. The growth will be boosted primarily by an expansion of consumption and business investment.

Structure of the U.S., Canadian and Québec economies(1)
(as a percentage of GDP, in nominal terms)

	United States	Canada	Québec
Domestic demand	**102.6**	**100.5**	**106.2**
Consumption	68.5	55.7	60.4
Business investment	12.7	13.2	9.2
Residential investment	3.2	6.8	6.9
Governments	18.2	24.9	29.7
Inventories	**0.5**	**0.4**	**0.4**
Net exports	**–3.1**	**–0.9**	**–6.5**
Exports	13.4	31.6	45.8
Imports	16.5	32.5	52.3
TOTAL	**100.0**	**100.0**	**100.0**

Note: Totals may not add due to rounding.
(1) On an economic accounts basis. Statistics for the United States and Canada are for 2014. Statistics for Québec are for the first three quarters of 2014.
Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

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[1] Most recent statistics available for 2014. OECD statistics are forecasts.

Domestic demand holds a significant place in the U.S. economy (cont.)

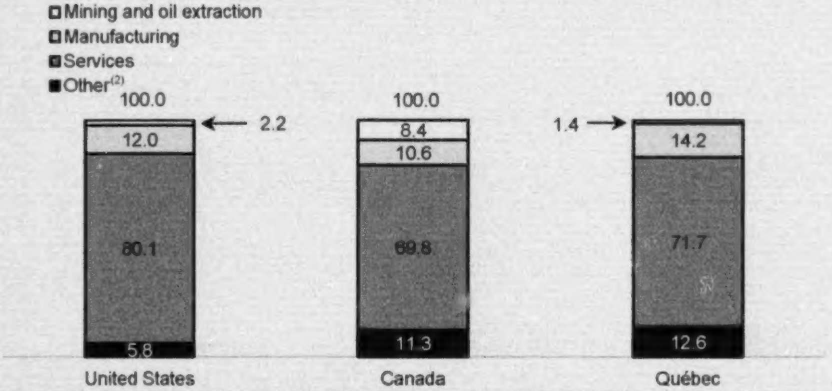
Stronger domestic demand in the United States will also drive growth in U.S. imports. This will be good for Québec, 41.0% of whose total exports are shipped to the United States.

Structure of the economy by industry

Economic structure by industry also differs between the United States, Canada and Québec.

- The service sector represents a large share of U.S. GDP (80.1%), as in Québec (71.7%) and Canada (69.8%). This situation stems from the tertiarization of advanced economies.
- The manufacturing sector holds a larger share in Québec's economy (14.2%) than in the U.S. (12.0%) and Canadian (10.6%) economies. Export-oriented businesses in the Québec and Canadian manufacturing sectors will benefit from the weaker Canadian dollar as well as more robust domestic demand in the United States.
- Mining and oil extraction account for a smaller share of the economy in Québec (1.4%) than in the United States (2.2%) and Canada (8.4%), which have a big oil extraction sector. This sector should be adversely affected by the drop in oil prices.

Economic structure by industry in the United States, Canada and Québec[1]
(as a percentage of GDP, in real terms)



(1) Statistics on a GDP basis, by industry. Statistics for Canada are for 2014. Statistics for Québec are for the first 11 months of 2014, whereas for the United States, they are for the first three quarters of 2014.
(2) Other sectors include construction and agriculture.
Sources: U.S. Bureau of Economic Analysis, Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

☐ Consumption sustained by labour market improvements and the drop in oil prices

After rising by 2.5% in 2014, the consumer spending growth rate is expected to accelerate to 3.2% in 2015 and then stand at 2.8% in 2016.

In 2015, growth in consumer spending will be fuelled by, among other things, the positive impact of low oil prices on consumers' purchasing power.

— The price of gasoline in the United States has fallen by 40% since the second quarter of 2014, standing at US$2.2 a gallon at the beginning of 2015, its lowest level since 2009.

— On an annual basis, a 15% decrease in gasoline prices could represent an estimated gain of US$60 billion in the purchasing power of American consumers, the equivalent 0.5% of personal disposable income.

Over the next two years, consumer spending growth will also be fuelled by an increase in disposable income and continued improvement in consumer confidence.

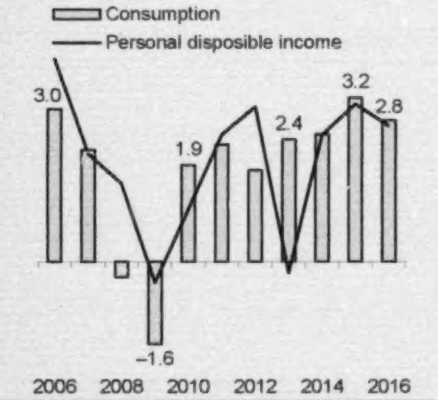
— After increasing by 2.5% in 2014, real personal disposable income is expected to rise by 3.1% in 2015 and 2.7% in 2016, driven primarily by ongoing job creation.

— Household confidence averaged above 100 points in the first two months of 2015, a level not seen since 2007.

CHART C.45

Consumption and personal disposable income in the United States

(percentage change, in real terms)

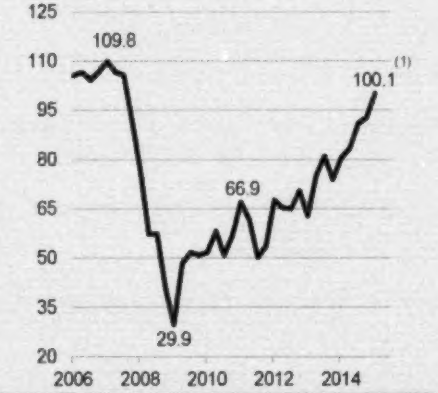


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.46

Change in consumer confidence in the United States

(index, 1985 = 100, quarterly data)



(1) January and February 2015.
Sources: Bloomberg and Ministère des Finances du Québec.

Effects of lower oil prices on the U.S. economy

Positive effect on domestic demand

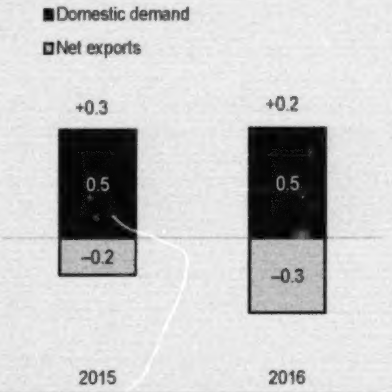
Overall, a fall in oil prices has a positive effect on the U.S. economy. All other things being equal, a 35% drop in the price of West Texas Intermediate (WTI) oil would lead to additional growth in U.S. real GDP estimated at 0.3 percentage point (pp) in 2015 and 0.2 pp in 2016. However, the effects vary with the GDP component.

- Domestic demand would add 0.5 pp to GDP growth in 2015 and 2016, primarily as a result of increased consumer spending and business investment in non-energy sectors.
  - This impact would be partly mitigated by a decrease in investment in equipment and structures in the oil and gas extraction sector.
- Net exports would shave 0.2 and 0.3 pp from real GDP growth over the next two years, respectively. Lower prices would adversely affect oil production in the United States, which would further fuel demand for imported oil.

Number of active drilling rigs in the United States has already dropped

The U.S. oil industry is already showing the effects of the fall in oil prices. The number of active drilling rigs in the United States has dropped by 46% from 1 609 at the beginning of October 2014 to 866 in mid-March 2015.

Impact of a 35% decrease in the price of WTI oil(1)
(impact on U.S. real GDP, in percentage points)

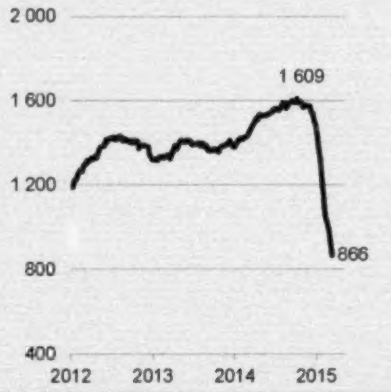


(1) Estimates by the Ministère des Finances du Québec using IHS Global Insight's economic forecasting model for the U.S.

Sources: IHS Global Insight and Ministère des Finances du Québec.

Number of active drilling rigs in the United States

(weekly data)



Source: Bloomberg.

❑ Labour market continues to strengthen

Employment and domestic demand are expected to continue to be mutually reinforcing over the next two years.

— Employment should expand at a rate of 2.1% in 2015 and 1.4% in 2016. The unemployment rate will continue to fall, to an average rate of 5.6% in 2015 and 5.4% in 2016.

In 2014, the U.S. labour market saw its strongest performance since 2000, with the creation of 2.6 million jobs.

— The unemployment rate fell to nearly 5.7% toward the end of the year, its lowest level since 2008.

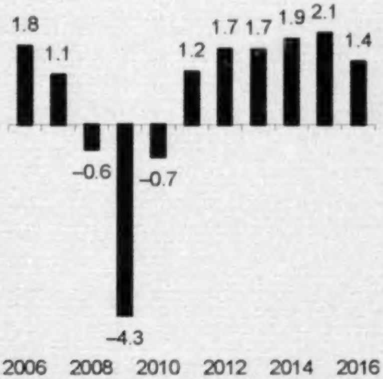
— The employment rate, i.e. the share of the working-age population that is employed, also rose to an average of 59.0% in 2014, the highest since 2009. However, it remains below the average rate of 63.0% seen between 2000 and 2007, a portion of the potential labour pool still being underutilized.

The positive impact of economic growth on employment is now more largely shared by U.S. households. Young people, hard hit by the 2008-2009 recession, benefit more from the labour market expansion, with their unemployment rate having dropped from 7.4% in 2013 to 6.5% in 2014.

— Furthermore, the quality of the jobs created is better. In 2014, the number of involuntary part-time workers fell by 9.1% compared to the previous year.

CHART C.47

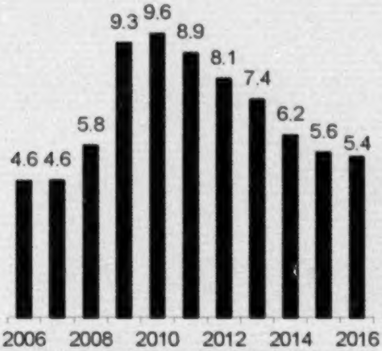
Change in employment in the United States
(annual percentage change)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.48

Unemployment rate in the United States
(per cent, annual data)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Sustained growth in business investment

Growth in business investment is expected to moderate from a rate of 6.3% in 2014 to 4.1% in 2015 and 4.5% in 2016.

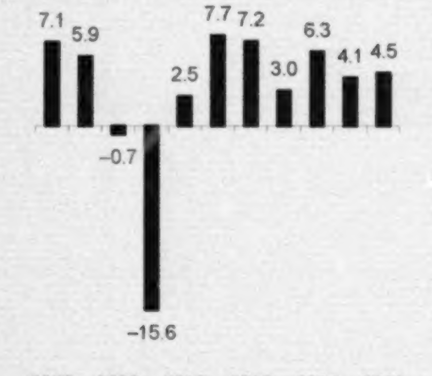
- For the next two years, expansion in business investment will continue in several sectors, including the important equipment sector.
- However, growth will be tempered by a decline in investment in oil and gas exploitation structures following the drop in oil and gas prices.
  - The decline in oil and gas prices will have an adverse effect on new investment projects in the energy sector.

Despite the anticipated slowdown, investment growth will remain above the average 3.2% growth rate seen between 2000 and 2007.

- Increased spending by households as a result of lower gasoline prices and robust growth in the labour market will encourage businesses to increase their production capacities.
  - The capacity utilization rate exceeded 79% in 2014, but remained lower than its pre-recession peak of 80.7%.
- In addition, low financing costs as well as the accrual of substantial liquidity since the end of the recession will allow U.S. firms to finance new projects.

CHART C.49

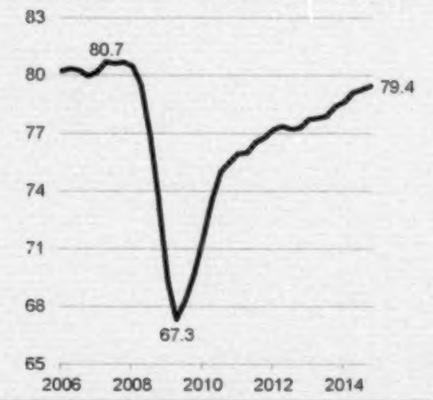
Business investment in the United States
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.50

Production capacity utilization rate in the United States
(per cent, quarterly data)



Sources: IHS Global Insight and Ministère des Finances du Québec.

☐ Acceleration of residential investment

After slowing to 1.6% in 2014, growth in residential investment is expected to gain traction, reaching rates of 9.7% in 2015 and 9.0% in 2016.

— After rebounding by more than 10% in 2012 and 2013, residential investment growth slowed in 2014, mainly due to the adverse effect of slower household formation and harsh climatic conditions in early 2014.

In 2015 and 2016, residential investment will return to sustained growth, driven by faster household formation and financing conditions that will remain highly favourable, despite the anticipated monetary tightening starting in 2015.

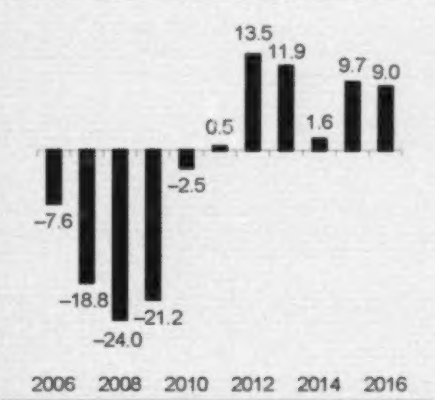
— After decreasing to 0.5 million in 2014, the pace of household formation should increase to 0.8 million in 2015 and 1.1 million in 2016, driven by an improvement in the economic situation of young people aged 25 to 34, whose employment rate rose by 2.3% in 2014, the highest level since 1987.

— Financing conditions remain favourable, with the 30-year mortgage rate standing at 3.7% in February 2015, 0.6 percentage point lower than the same period last year.

After standing at 1.0 million units in 2014, housing starts are expected to rise to 1.2 million units in 2015 and 1.3 million units in 2016, near their long-term trend of around 1.5 million units per year.

CHART C.51

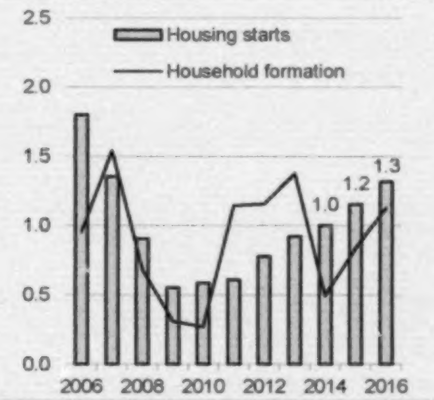
Residential investment in the United States
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.52

Housing starts and household formation in the United States
(millions of units)



Sources: IHS Global Insight and Ministère des Finances du Québec.

☐ Renewed growth in government spending

After decreasing by 0.2% in 2014, spending by all levels of government in the United States is expected to increase in real terms by 0.9% in 2015 and 0.7% in 2016.

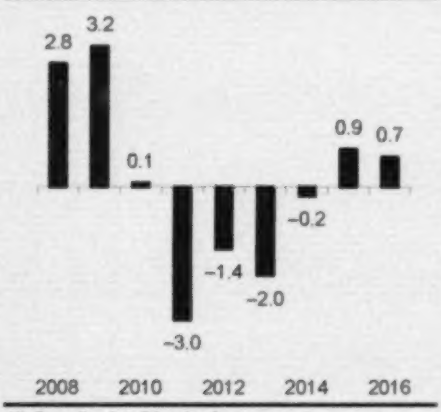
- The U.S. federal government is expected to continue its fiscal consolidation efforts in 2015 and 2016, while posting a slight spending increase.
  - Real spending by the federal government should rise by 0.5% in 2015 and 0.1% in 2016, after decreasing by 1.9% in 2014.
- According to the Congressional Budget Office, a federal agency that provides non-partisan analysis to Congress, the federal deficit will be cut from 2.8% of GDP in 2014 to 2.7% in 2015 and 2.4% in 2016, the lowest level since 2007.

Government spending's positive contribution to U.S. economic growth starting in 2015 is a significant change from the more restrictive trend seen in recent years.

- Spending by State and local governments will be supported by higher tax revenues stemming from, in particular, the upturn in the U.S. real estate sector.
- Federal government spending will grow due to an increase in the defence budget, but spending excluding defence should continue to fall slightly in real terms.

CHART C.53

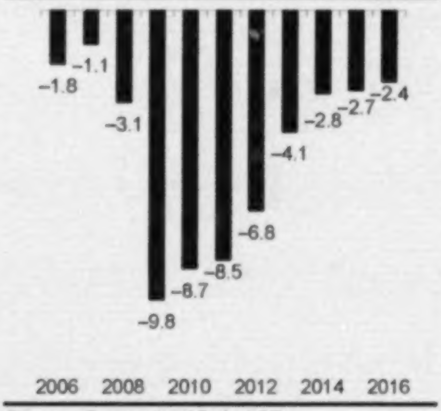
Government spending in the United States[(1)]
(percentage change, in real terms)



(1) Spending by all levels of government.
Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.54

Federal government's budgetary balance
(as a percentage of GDP)



Source: Congressional Budget Office.

☐ Moderate increase in exports

Following 3.1% growth in 2014, U.S. exports are expected to increase by 3.4% in 2015 and 4.2% in 2016. However, the acceleration in exports will be tempered primarily by:

— economic uncertainty in the euro area and a slowdown in growth among some of the United States' top trading partners, including China;

— appreciation of the U.S. dollar, which will make U.S. exports less competitive.

U.S. imports, which rose by 4.0% in 2014, are expected to grow at a rate of 4.1% in 2015 and 4.6% in 2016. The growth will be fuelled by:

— an acceleration in U.S. domestic demand, in particular household consumption;

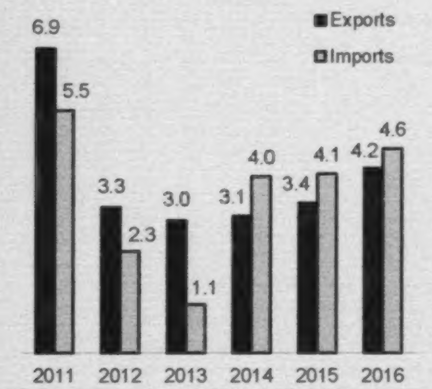
— higher demand for imported goods as a result of the 17% rise in the U.S. dollar since July, which makes these goods less expensive.

On the other hand, U.S. imports will be moderated by a decline in crude oil imports stemming from recently developed new production capacities. The new production will nevertheless increase at a slower pace in the coming years owing to the adverse effect of lower oil prices on future investments.

CHART C.55

Change in exports and imports in the United States

(percentage change, in real terms)

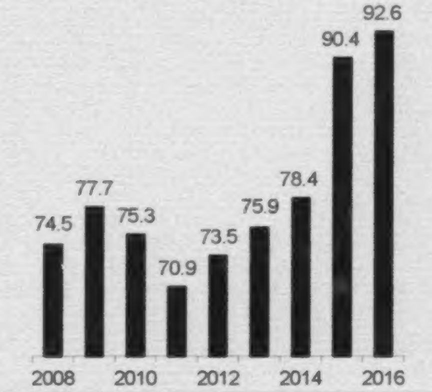


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.56

U.S. dollar exchange rate[1]

(index, March 1973 = 100)



(1) U.S. dollar exchange rate weighted by trade with the United States' top seven trading partners, annual averages.

Sources: Bloomberg and Ministère des Finances du Québec.

Québec businesses must seize the opportunity afforded by stronger U.S. imports

After declining by 0.4% in 2013, U.S. goods imports rose by 3.4% in nominal terms in 2014.[1]

- The primary goods imported were industrial supplies (28.4% of total imports), capital goods (25.2%) and consumer goods (23.8%). Automotive vehicles, engines and parts also accounted for a significant share of imports (14.0%). The majority of these import categories were up in 2014.

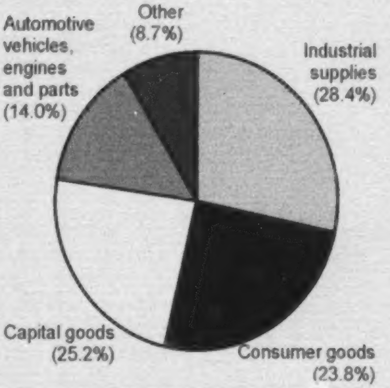
Positive outlook for Québec and Canadian exports

In 2014, over 50% of U.S. goods imports came from four trading partners: China (19.9%), Canada (14.8%), Mexico (12.5%) and Japan (5.7%).

- Since 2005, Chinese and Mexican exporting businesses have won shares of the U.S. import market, whereas Canadian and Japanese exporters have lost shares.
- Québec saw its share of U.S. imports shrink from 2.7% in 2005 to 1.8% in 2012, and then edge up to 1.9% in 2014. The value of Québec exports to the United States decreased by $4.5 billion over the same period.

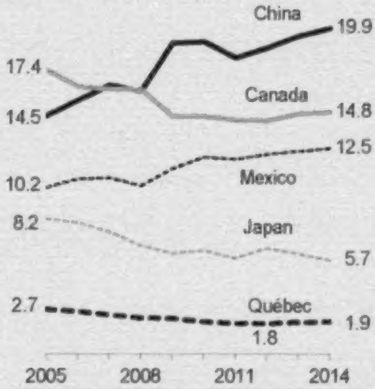
In 2015, stronger domestic demand in the United States is expected to spur U.S. imports. Québec, 70% of whose international exports are shipped to the United States, will benefit from more robust U.S. demand and depreciation of the Canadian dollar against the U.S. dollar.

Main categories of goods imported by the United States in 2014
(as a percentage of total goods imports, annual data)



Sources: U.S. Census Bureau and Ministère des Finances du Québec.

Origin of U.S. imports
(as a percentage of total goods imports, annual data)



Sources: U.S. Census Bureau, Institut de la statistique du Québec and Ministère des Finances du Québec.

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[1] Figures are on a customs basis.

☐ Federal Reserve expected to raise its target rate in 2015

After ending its asset purchase program in October 2014, the Federal Reserve (Fed) said in January 2015 that it could be "patient" in beginning the normalization of its monetary policy.

The Fed's two objectives, i.e. full employment and an inflation rate of 2%, have trended differently in the last few quarters.

- On the one hand, there has been substantial improvement in the job market. According to the labour market conditions index introduced by the Fed in October 2014, nearly 90% of the deterioration in labour market conditions that occurred during the recession has been recovered.
- On the other, inflation has remained below the Fed's 2% target rate. In addition, inflation expectations have fallen since mid-2014, primarily due to the oil price decline.

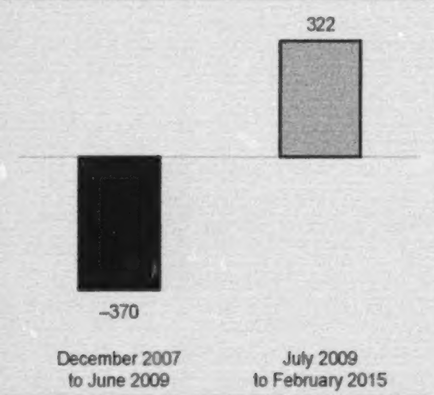
The Fed removed the word "patient" from its statement in mid-March, but downgraded its forecast for real GDP growth and inflation. It anticipates that it will be appropriate to raise the target for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term.

Against this backdrop, the Fed is expected to begin tightening its monetary policy in the third quarter of 2015. This will be a major step toward normalizing U.S. monetary policy, with the federal funds rate having been locked near zero since the end of 2008.

CHART C.57

U.S. labour market conditions index[1]

(cumulative change in 19 labour market indicators, in points)

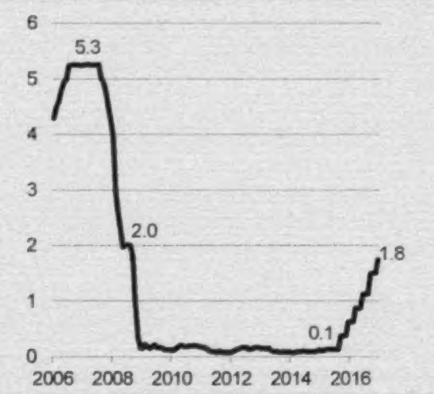


(1) A figure above zero indicates improving conditions and a figure below zero indicates a deterioration.
Source: U.S. Federal Reserve.

CHART C.58

Target interest rate in the United States

(federal funds target rate, per cent)



Sources: IHS Global Insight and Ministère des Finances du Québec.

Diverging monetary policies and appreciation of the U.S. dollar

A number of central banks have eased their monetary policies in recent months to try and stimulate economic growth or counter deflation or appreciation of their currency.

- In January 2015, the European Central Bank (ECB) announced an expanded asset purchase program[1] to spur growth and raise inflation, which has been below zero since late 2014. Announcement of the program played a large part in the euro's decline.
- Amidst speculation about the ECB's program, the Swiss National Bank (SNB) made the surprise announcement in January that it was ending its policy of capping the Swiss franc against the euro. In an effort to prevent the franc rising too far, the SNB also took its key deposit rate further below zero, to –0.75%.
- In Denmark, the main interest rate, which was also negative, was cut several times in an attempt to protect the Danish krone's peg to the euro.
- The central banks of Canada, Japan, Australia and Sweden have also eased their monetary policies in recent months.

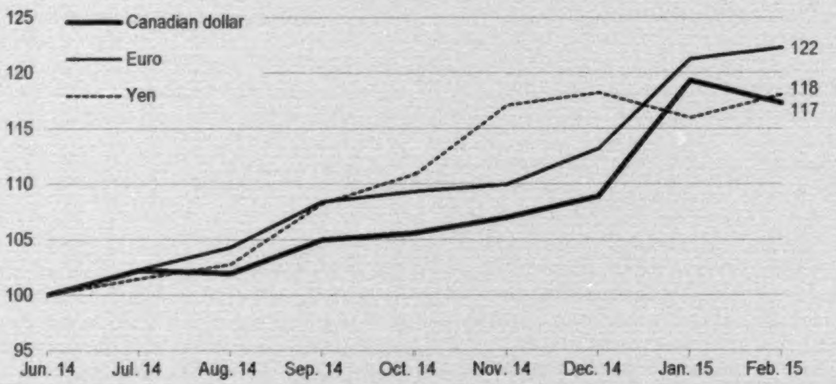
U.S. monetary policy is on the opposite path, with the Federal Reserve expected to begin raising its key interest rate in 2015.

This lag between monetary policies reflects the different outlook for the U.S. economy relative to many of the world's other economies and contributes to the appreciation of the U.S. dollar.

- Since June 2014, the U.S. dollar has gained 22% against the euro, 18% against the yen and 17% against the Canadian dollar.

The strong dollar creates challenges for the U.S. economy by making U.S. exports less competitive and affecting the trade balance, among other things.

U.S. dollar exchange rate against selected currencies
(index, June 2014 = 100, monthly data)



Sources: Bloomberg and Ministère des Finances du Québec.

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[1] The program, which is similar to the one introduced by the U.S. Federal Reserve, includes the monthly purchase of €60 billion of private and public debt securities starting in March 2015.

3. THE GLOBAL ECONOMIC ENVIRONMENT

Global economic growth is expected to remain moderate, at a forecast rate of 3.4% in 2015, the same as in 2014, rising to 3.6% in 2016.

— In 2015 and 2016, advanced economies are expected to expand at a faster pace than in 2014.

— However, emerging and developing economies will continue experiencing slower growth in 2015, reflecting more moderate growth of the Chinese economy and the economic difficulties in Russia and Brazil.

The performance of the world's three major economic hubs will continue to be uneven.

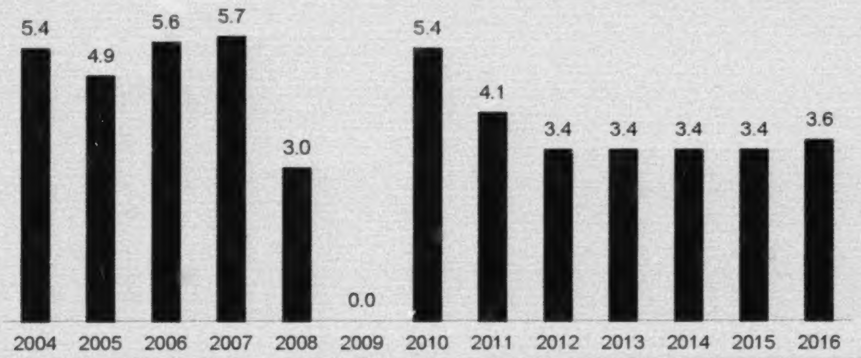
— The **United States** will drive global economic growth. The U.S. economy will expand from a rate of 2.4% in 2014 to 2.9% in 2015 and 2.7% in 2016, spurred by an increase in consumer spending and residential and non-residential investment.

— The **euro area** will see its economic growth firm up slightly, especially thanks to depreciation of the euro, low oil prices and favourable monetary policy. Real GDP growth will rise from 0.9% in 2014 to 1.3% in 2015 and 1.4% in 2016.

— Growth of **China**'s economy will continue to moderate as a result of weaker growth in domestic demand. Economic expansion is expected to be 7.4% in 2014, 6.8% in 2015 and 6.5% in 2016.

CHART C.59

Global economic growth
(real GDP in purchasing power parity, percentage change)



Sources: International Monetary Fund, IHS Global Insight, Eurostat and Ministère des Finances du Québec.

☐ Moderate growth in global trade

International trade is expanding at a slower pace than before the 2008-2009 recession. The growth rate averaged 4.0% between 2011 and 2014, compared with a rate of 7.6% between 2002 and 2007.

Since the start of 2015, several international institutions, including the International Monetary Fund (IMF) and the World Bank, have cut their global economic growth forecasts for 2015 and 2016.

— Considering that economic growth is closely tied to global trade, the downward revisions to forecasts suggest that growth in trade will remain moderate for the next few years.

Furthermore, a recent study by the IMF and World Bank found that the slowdown in global world trade since the 2008-2009 recession is attributable to cyclical factors, but also to structural factors, including:

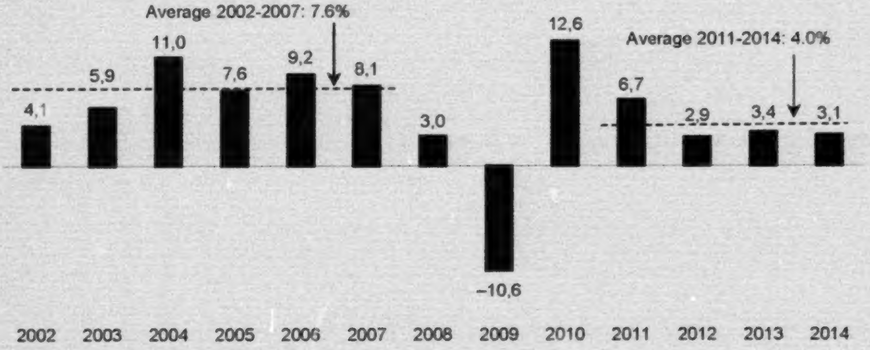
— weak demand in several advanced economies, which account for 65% of the world's imports;

— changes in the structure of global supply chains, especially in China and the United States, with a higher proportion of the value of final goods being added domestically, thereby decreasing the trade of intermediate goods between countries;

— the composition of demand, which was dominated by capital goods prior to the recession and is now more consumption-oriented, including consumption of services, which generate fewer imports.

CHART C.60

Volume of global world trade in goods and services
(percentage change)



Sources: International Monetary Fund and Ministère des Finances du Québec.

Foreign demand for Québec products

The index of foreign demand for Québec products (IFDQP[1]) reveals the growth potential of Québec's international goods exports, bearing in mind global economic activity.

In 2014, the index rose by 3.0%, the biggest increase since 2005.

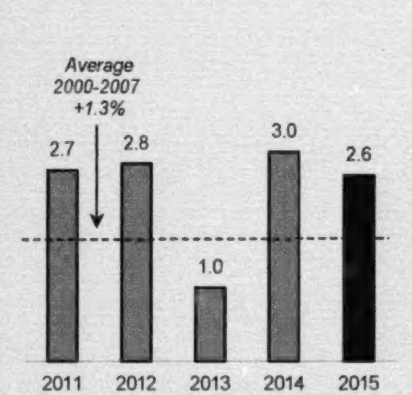
- The acceleration of foreign demand for Québec products is attributable primarily to the impact of increased investment by U.S. businesses and greater consumption of goods in the United States.

IFDQP to continue increasing in 2015

The IFDQP is expected to continue rising for the next few years. After expanding by 3.0% in 2014, foreign demand for Québec products is expected to climb by 2.6% in 2015, exceeding the average annual growth rate of 1.3% between 2000 and 2007.

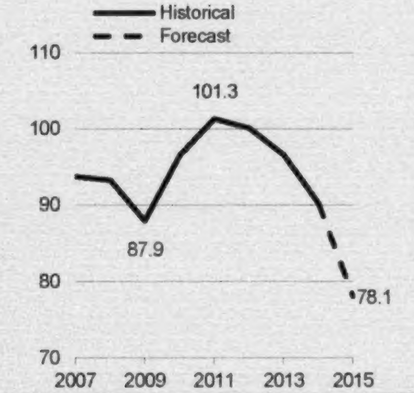
- Goods consumption and business investment in the United States should continue to sustain foreign demand for Québec products.
- In addition, depreciation of the Canadian dollar against the U.S. dollar will be positive for Québec's international goods exports, which should be further boosted by higher U.S. demand.

Change in foreign demand for Québec products
(annual percentage change)



Sources: IHS Global Insight, Bank of Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

Average Canadian dollar exchange rate
(U.S. cents, annual data)



Sources: Bloomberg and Ministère des Finances du Québec.

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[1] The IFDQP is based on research by the Bank of Canada and makes it possible to assess the impact of global economic activity on Québec's international goods exports. The index is estimated based on economic accounts.

3.1 Firmer growth of advanced economies

Following 1.8% expansion in 2014, advanced economies are expected to grow by 2.2% in 2015 and 2016, an improvement over the growth rate seen since 2011. This group of countries should benefit from:

- a stronger U.S. economy, which in 2015 is expected to see its biggest expansion since 2005, driven by increased consumption and residential and business investment;
- monetary easing by central banks in the euro area and Japan to spur economic growth and counter the decrease in inflation;
- the positive impact of low oil prices and, for some countries, depreciation of their currency.

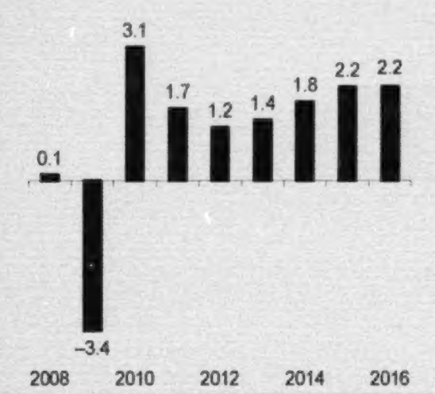
Economic growth in the euro area and Japan will nevertheless remain modest.

- In the euro area, unemployment rates remain very high in several countries and will continue to weigh on domestic demand, in addition to uncertainty about the situation in Greece.
- In Japan, economic growth remains fragile. The important actions taken by the government and the Bank of Japan in recent years have not yet spurred lasting economic recovery.

CHART C.61

Growth of advanced economies

(real GDP in purchasing power parity, percentage change)

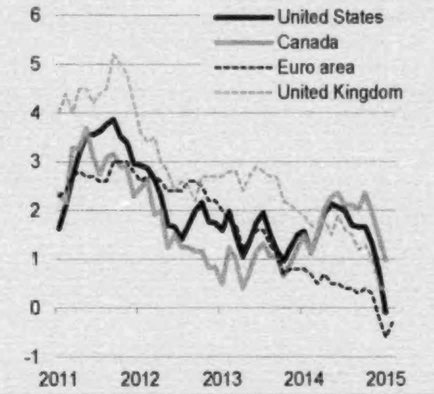


Sources: International Monetary Fund, IHS Global Insight, Eurostat and Ministère des Finances du Québec.

CHART C.62

Inflation trends in selected advanced economies

(CPI, monthly data, annual percentage change)



Sources: Eurostat and IHS Global Insight.

3.2 Moderation of growth of emerging and developing economies

After increasing by 4.6% in 2014, real GDP growth in emerging and developing economies is expected to be 4.2% in 2015 and 4.6% in 2016, a much higher rate than that of advanced economies.

The portrait will be different for the two largest emerging economies.

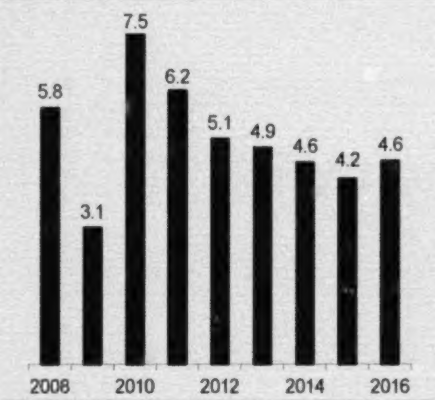
- Economic growth in **India** will continue to accelerate in 2015, fuelled by low oil prices, a less restrictive monetary policy and an increase in public spending on infrastructure.
- In **China**, economic growth will continue to moderate as a result of sluggish growth in domestic demand. The level of investment will be curtailed by the continuation of oversupply on the real estate market and excess production capacity in the industrial sector.

In addition, emerging economies that carry less weight in the global economy will produce a lacklustre performance in 2015 and 2016.

- In **Russia**, the drop in oil prices and Western sanctions will put a serious dent in economic activity.
- In **Brazil**, which went through a recession in 2014, economic growth in 2015 will continue to be hampered by economic difficulties, including high inflation, capital outflows and structural problems.

CHART C.63

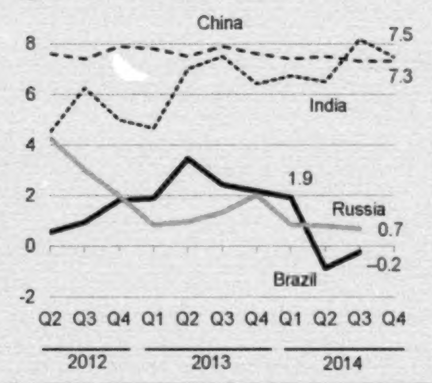
Growth of emerging and developing economies
(real GDP in purchasing power parity, percentage change)



Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

CHART C.64

Economic growth in the BRIC countries[1]
(real GDP, quarterly data, annual percentage change)



(1) Brazil, Russia, India and China.
Source: Datastream.

The impact of low oil prices varies with the country

Brent oil prices sank by over 50% between June 2014 and mid-March 2015. The price decline severely affected the growth outlooks for oil-exporting countries as well as the inflation outlooks in many countries.

Overall positive impact on global growth

Overall, low oil prices will have a positive impact on the global economy. However, the size of the impact will depend on how long prices remain low.

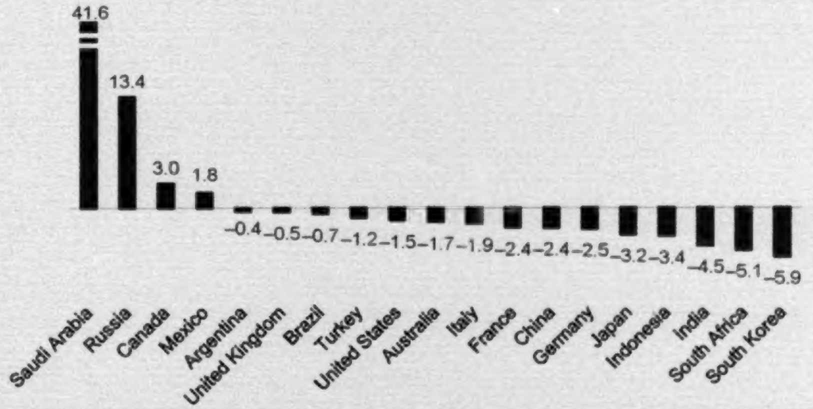
Diverging impacts depending on the country

Overall, consumers will benefit from the low gasoline prices, which will enhance their purchasing power. The money saved on gasoline will be used to buy other goods and services as well as shore up savings.

However, the net impact will differ according to whether a country exports or imports oil.

- Four G20 countries are net exporters: Saudi Arabia, Russia, Canada and Mexico. The first two will be by far the most affected by the correction in prices, because their economies are heavily dependent on oil exports.
  - Oil-producing countries will face a decrease in government revenues, depreciation of their currency and lower investment in the energy sector.
- In oil-importing countries, households will gain from low oil prices, and so will businesses by seeing their production costs go down, which will make them more profitable and spur business investment.
  - A number of emerging economies will also benefit from lower costs tied to the fuel subsidies they grant in their countries.

Net oil exports – 2013
(as a percentage of GDP, in nominal terms)



Sources: United Nations (Comtrade), International Monetary Fund and Ministère des Finances du Québec.

❑ Outlook by country

Canada's economic growth will be generally affected by the oil price decline. Real GDP growth is expected to slow from 2.5% in 2014 to 2.0% in 2015 and 2.2% in 2016. However, each region will be affected differently. Provinces whose economy relies on the manufacturing sector should gain from the lower cost of oil inputs and weaker Canadian dollar, adding to the effects of robust U.S. demand. By contrast, oil-producing provinces will see their economic growth tempered by the low oil prices, in particular through reduced investment in the energy sector.

In the **United States**, economic growth should accelerate from 2.4% in 2014 to 2.9% in 2015, and then stand at 2.7% in 2016. The U.S. economy will be driven by growth in domestic demand as a result of job creation, which will spur consumer spending, as well as by higher residential and non-residential investment. However, expansion of the U.S. economy will be limited by the fragile international situation and appreciation of the U.S. dollar, which will curb export growth.

TABLE C.6

Economic growth outlook in the world
(real GDP, percentage change)

	Weight(1)	2014	2015	2016
World(2)	100.0	3.4	3.4	3.6
Advanced economies(2)	43.5	1.8	2.2	2.2
Canada	1.5	2.5	2.0	2.2
United States	16.4	2.4	2.9	2.7
Euro area(2)	12.3	0.9	1.3	1.4
United Kingdom	2.3	2.6	2.4	2.3
Japan	4.6	0.0	0.7	1.0
Emerging and developing economies(2)	56.5	4.6	4.2	4.6
China	15.8	7.4	6.8	6.5
India(3)	6.8	7.4	7.6	7.5

(1) Indicated weights are for 2013.
(2) Aggregate growth rates are expressed in purchasing power parity.
(3) For the fiscal year (April 1 to March 31). In early 2015, the Central Statistics Office released a new series of national accounts that reflect several changes in methodology. The changes resulted in significant revisions to India's economic growth rates.
Sources: International Monetary Fund, IHS Global Insight, Eurostat, Statistics Canada and Ministère des Finances du Québec.

In the **euro area**, economic growth is expected to increase from 0.9% in 2014 to 1.3% in 2015 and 1.4% in 2016. Economic activity will benefit from the monetary easing measures announced by the European Central Bank in early 2015, which drove down the euro, and from the decline in oil prices. Despite the stimulus measures, consumption and investment will remain weak. In addition, several countries will continue to experience high unemployment.

In the **United Kingdom**, real GDP growth will slow slightly from 2.6% in 2014 to 2.4% in 2015 and 2.3% in 2016. An increase in consumption and residential and non-residential investment will continue to drive economic growth for the next two years. In addition, the U.K.'s economy will continue to benefit from attenuation of the effects of budgetary control measures introduced after the financial crisis.

In **Japan**, economic growth will rise from 0.0% in 2014 to 0.7% in 2015 and 1.0% in 2016. In 2014, economic activity was severely hampered by an increase in the sales tax, which was raised from 5% to 8% in April and led the country into a technical recession. Nevertheless, the Bank of Japan's highly accommodative monetary policy, depreciation of the yen and lower oil prices should contribute to a gradual rebound in Japan's economic activity.

In **China**, economic growth is expected to moderate from 7.4% in 2014 to 6.8% in 2015 and 6.5% in 2016 as a result of more modest growth in investment, particularly in the real estate sector, and sluggish growth in exports due to moderate global demand. On the other hand, household consumption should gain from macroeconomic policies that focus on job creation and services.

In **India**, economic growth should remain strong, with rates of 7.4% in 2014, 7.6% in 2015 and 7.5% in 2016. The slowdown in the Chinese economy should bring India to play a more important role in driving global economic growth. India's economy will benefit from robust economic activity in the United States, a major trading partner, as well as from the continuation of structural reforms to improve the business climate and clean up public finances. In addition, the sharp drop in oil and food prices will contain inflationary pressures in India.

Distinctions between advanced economies and emerging and developing economies

In its global economic forecast for Budget 2015-2016, the Ministère des Finances du Québec (MFQ) grouped emerging economies and developing economies under a single category.

- Consequently, the MFQ's global economic forecast now covers two groups of countries: advanced economies and emerging and developing countries.
  - The "advanced economies" group includes, in particular, the United States, member countries of the euro area, Japan, the United Kingdom, Canada and some other Asian economies, such as South Korea.
  - The "emerging and developing economies" group includes, notably, China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Poland, Argentina, Iran and Algeria.

In 2013, the advanced economies accounted for 43.5% of the global economy, while the emerging and developing economies accounted for 56.5%.

The MFQ distinguishes between advanced economies and emerging and developing economies using the same criteria as the International Monetary Fund, i.e. per capita income level, export diversification and the degree of integration into the global financial system.

Weight of advanced economies and emerging and developing economies in the global economy
(per cent, in purchasing power parity, 2013)

Economies	Weight
Advanced	**43.5**
United States	16.4
Japan	4.6
Germany	3.4
France	2.5
United Kingdom	2.3
Other	14.4
Emerging and developing	**56.5**
China	15.8
India	6.8
Russia	3.4
Brazil	2.9
Mexico	2.0
Other	25.5
TOTAL	**100.0**

Note: Total may not add due to rounding.
Sources: International Monetary Fund and Ministère des Finances du Québec.

4. MAIN RISKS THAT COULD INFLUENCE THE ECONOMIC FORECAST SCENARIO

The economic and financial forecasts in Budget 2015-2016 are based on several assumptions, some of which are associated with risks that might influence the anticipated developments in the Québec economy, which is open to the world.

— A number of these risks are external. A different development in the economies of our main trading partners than the one anticipated and geopolitical tensions in different regions of the world are two of the most common examples.

— Other risks are internal and could drive some of Québec's and Canada's economic variables in a different direction than expected.

☐ A different path for oil prices

Oil prices plunged in the second half of 2014 and beginning of 2015.

The economic scenario forecasts a gradual increase in oil prices over the coming quarters. The downward adjustments made to supply growth and the gradual upturn in demand should gradually correct the market imbalances.

However, oil prices could follow a different path than expected, depending on whether the main petroleum-producing countries decide to increase or cut their production, among other factors. These decisions are hard to predict because they are guided by economic interests.

— If oil prices follow a different path than the one used in the economic forecast scenario, it could have an impact on global economic growth, the Canadian and Québec economies, as well as the value of the Canadian dollar.

— For example, a faster-than-expected rise in oil prices could drive up the Canadian dollar, which could mean fewer economic benefits for Québec.

☐ Greater deceleration of the Canadian economy

The drop in oil prices will slow economic growth in Canada overall. Some of the manufacturing provinces, such as Québec and Ontario, will benefit from the situation, but the oil industry in Western Canada will be hit by the plunge in crude prices.

The economic scenario used for Budget 2015-2016 provides for such a slowdown. Under the scenario, Canada's GDP growth will contract from 2.5% in 2014 to 2.0% in 2015 and then accelerate to 2.2% in 2016.

However, the recent tumble in oil prices is exceptional and it is hard to predict exactly how the Canadian economy will react to the shock.

— If the slowdown in Canada's economy is bigger than anticipated, it could have a more negative impact on interprovincial trade.

— In addition, some sectors, such as real estate, could be more severely affected in the Western provinces.

More gradual recovery in investments

The global recession in 2008-2009 led to a sharp decline in investment in several economies. Since then, the recovery in business investment has been weaker than during previous cycles in many OECD countries.

- The slow investment recovery is a global phenomenon. Businesses in several countries are hesitant to invest, despite their higher profits and the favourable financing conditions.
- Furthermore, at the G20 meeting in February 2015, the member countries reiterated their commitment to implementing concrete strategies to stimulate investment growth.

Despite government commitments to spur investment, businesses around the world could continue to adopt a wait-and-see policy. This stance could also affect Québec.

Global growth restrained by continuing uncertainty

A number of volatility factors currently present at the global level could adversely affect global economic growth.

Renewed instability in the euro area

For several years now, the euro area has been feeling the effects of the global recession in 2008-2009 and subsequent sovereign debt crisis in a number of its member countries.

- Despite the positive impact of lower oil prices and recent economic stimulus measures, the growth outlook for the euro area remains weak. In addition, several member countries are still facing high unemployment.
- Against this backdrop, the ongoing struggles in some of the member countries, especially Greece, could eventually lead to renewed economic, financial and political instability in the euro area.

Bigger-than-anticipated slowdown in China's economy

China's growth since the early 2000s has depended on investment and exports. However, this growth model has its limits and China wants to become less reliant on exports and increase the contribution of domestic demand.

This transition nevertheless entails risks to China's economy.

- China's high total debt load (private and public debt) as well as the oversupply on the real estate market and excess production capacity risk slowing the country's economic growth more than anticipated.
- If that were to happen, it would have adverse effects on the global economy, with China being a vital link in global production chains.

Geopolitical tensions and conflicts

There are a number of geopolitical conflicts in the world today.

- The conflict in Ukraine led to economic sanctions and reprisals between the countries concerned, which caused major economic and financial problems in Russia and Ukraine and temporarily weakened economic growth in the euro area.
- The situation in the Middle East dims the economic outlook for the region's countries and fuels the feeling of insecurity around the world.

The economic and financial scenario hinges on the premise that these conflicts and the associated risks will continue to be contained in the coming quarters.

- If they are not, it could affect the global economy. It is very difficult to quantify the effects of such outcomes.

5. CHANGES IN THE PRICES OF THE MAIN METALS IN QUÉBEC

The prices of metals mined or processed in Québec, in particular aluminum, iron ore, gold, nickel and copper, are determined on international markets. The mining and primary processing industries are thus subject to global economic cycles.

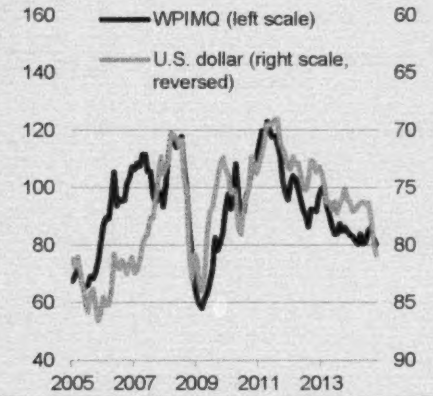
Two key factors have influenced the world price index for metals from Québec (WPIMQ) in recent years: weak global economic growth and appreciation of the U.S. dollar, metals being traded in U.S. currency.

- More specifically, metal prices have been influenced by the growth of emerging economies, with China accounting for nearly 46% of the world's metal production in 2013.

CHART C.65

World price index for metals from Québec and the U.S. dollar exchange rate[(1)]

(WPIMQ: 2010 = 100, U.S. dollar: March 1973 = 100)



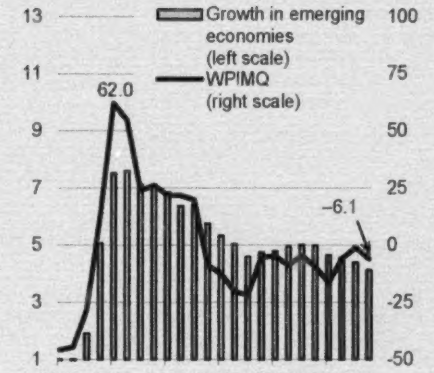
(1) U.S. dollar exchange rate weighted by trade with the United States' top seven trading partners, monthly data.

Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

CHART C.66

Growth of emerging economies and change in the WPIMQ

(annual percentage change, quarterly data)



Sources: Institut de la statistique du Québec, IHS, Global Insight, Bloomberg, World Bank and Ministère des Finances du Québec.

☐ General upturn in metal prices in the coming years

The WPIMQ fell by 7.8% in 2014. On an annual basis, it is expected to decrease another 4.5% in 2015, mainly as a result of the drop in price of iron ore seen over the last few quarters. The WPIMQ is expected to go up by 6.4% in 2016 and 5.0% in 2017.

— The growth of emerging economies, which are large metal consumers, should support demand for commodities in the coming years.

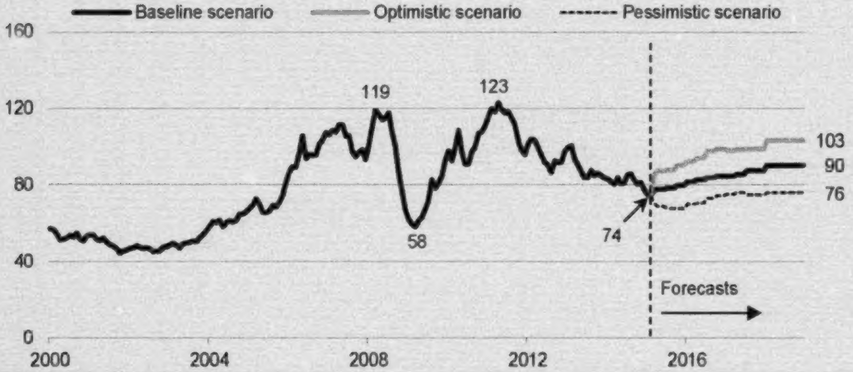
— In addition, the acceleration in U.S. economic growth should further fuel demand for certain types of metals used to make consumer goods and materials.

According to private sector forecasts, the outlook is good for several metal prices. However, price trends will continue to differ from one metal to the next.

— Currently standing at relatively low levels, the growth forecasts for aluminum, nickel, zinc, copper and iron ore prices are positive. The price of gold is expected to go up as well, although the increase will be more moderate.

CHART C.67

World price index for metals from Québec(1),(2)
(index, 2010 = 100, monthly data)



(1) World prices for the main metals mined or processed in Québec are expressed in U.S. dollars. Forecast data are quarterly for the next 10 quarters and annual thereafter.
(2) The index includes prices for metals mined in Québec as well as aluminum.
Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

☐ Demand for aluminum will remain sustained

Over the last year, the price of aluminum has been supported by increased demand for this metal and by the closure of several smelters in recent years. In February 2015, the price of aluminum was US$1 823 a tonne, up 7.1% over the same period last year.

- Innovations that make it easier to manufacture large aluminum parts allow for greater use of this metal in the automobile and aeronautics industries.
- In addition, aluminum inventories have decreased as a result of numerous production interruptions, particularly in Europe and North America. This downward trend could continue in the coming years.

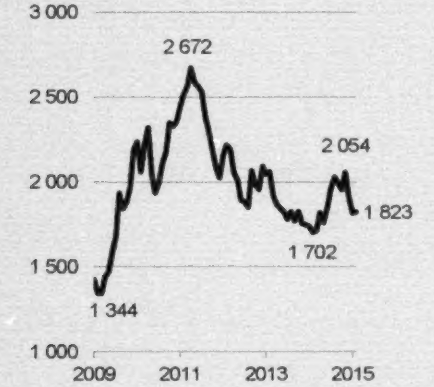
The demand for aluminum is expected to continue expanding, primarily as a result of growing use of this metal, including in the automobile industry to make vehicles lighter and therefore more fuel-efficient.

- Over the next few years, the price of aluminum is expected to average upward of US$2 000 a tonne.
- However, this positive price trend for aluminum may be moderated by the growth in exports from China, where aluminum smelters receive large power subsidies.

CHART C.68

Price of aluminum

(U.S. dollars per tonne, monthly data)

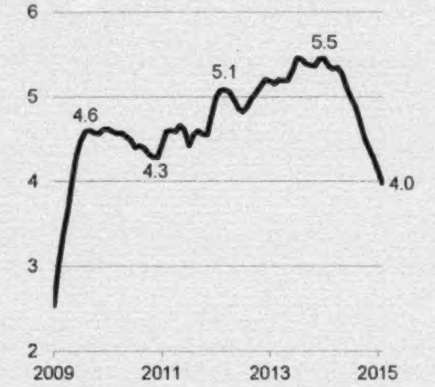


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.69

Aluminum inventories on the London Metal Exchange

(millions of tonnes, monthly data)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ Higher prices for the main industrial metals

Industrial metal prices were on the whole adversely affected in 2014 by a moderation of growth in world demand. In the last few quarters, however, price trends have differed from one metal to the next.

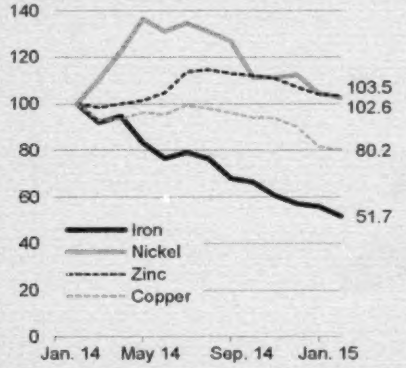
- Iron and copper prices dropped due to the glut in the iron ore market and the increase in copper inventories.
- Zinc and nickel prices held steady with the global supply of these metals declining due to specific factors, including the closure of a large number of zinc mines and the drop in Indonesia's nickel ore exports.

The growth outlook for industrial metal prices in the coming years is generally positive in comparison to the prices currently seen.

- In February, the price of iron ore was US$62.8 a tonne, over 50% lower than the price in 2013. It is expected to remain near this level in 2015 and 2016 and then gradually recover as the imbalances between supply and demand are mitigated.
- The price of copper, which decreased 20% on a year-over-year basis in February 2015, is expected to recover with the decrease in inventories and higher demand, reaching over US$6 500 a tonne in 2016.
- Zinc and nickel prices will rise to nearly US$2 500 and US$20 000 a tonne, respectively, in 2016.

CHART C.70

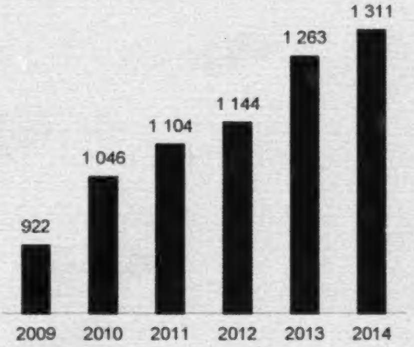
Prices of the main industrial metals
(index, February 2014 = 100)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.71

Global iron ore supply[(1)]
(millions of tonnes)



(1) Seaborne market.
Source: Morgan Stanley.

☐ Demand for gold buoyed by central banks in 2014

After plunging in 2013, the price of gold remained relatively stable in 2014, despite lower demand for the yellow metal than during the previous year.

In 2014, larger gold purchases by central banks partially offset the lower demand for jewelry and technology products.

— Central banks bought 477 tonnes of gold in 2014, a 17% increase from 2013, due in particular to purchases by Russia's central bank.

— The average monthly price of gold has ranged between US$1 177 and US$1 336 an ounce since January 2014. In February 2015, the average price of gold was US$1 225 an ounce.

World production of gold has increased by 27% since 2008 with the opening of several mines. Québec's gold production rose by 49% over the same period, standing at 1.3 million ounces in 2014, mainly because of the Canadian Malartic mine, which opened in 2011.

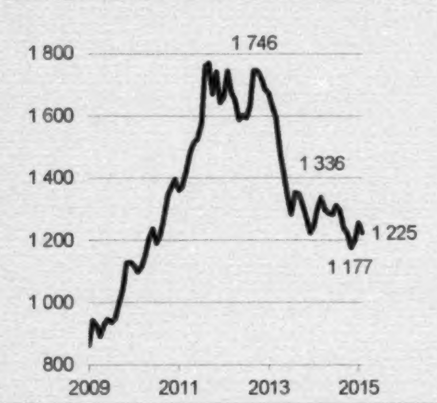
World gold production is expected to reach a ceiling by 2017, spurring a gradual rise in the yellow metal's price. However, the increase could be limited by the anticipated start of monetary tightening in the United States in 2015, when gold will become less attractive to investors as a financial asset.

— Consequently, the price of gold should see only moderate growth in the medium term, reaching close to US$1 300 an ounce.

CHART C.72

Price of gold

(U.S. dollars per ounce, monthly data)

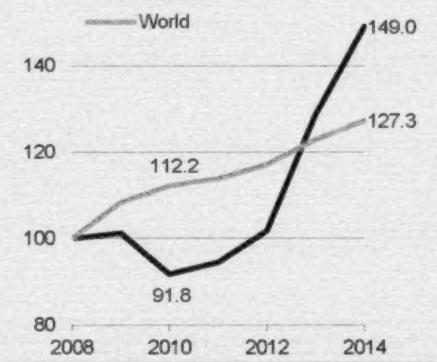


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.73

Gold production in Québec and the world

(index, 2008 = 100, volume, annual data)



Sources: Institut de la statistique du Québec, Bloomberg and Ministère des Finances du Québec.

Section D

THE GOVERNMENT'S DETAILED FINANCIAL FRAMEWORK

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INTRODUCTION

This section of The Québec Economic Plan presents the government's detailed financial framework for 2014-2015 to 2016-2017.[1]

The information provided concerns:

- consolidated budgetary transactions for the period from 2014-2015 to 2016-2017;
- the detailed change in consolidated revenue and expenditure, as well as adjustments made since Budget 2014-2015;
- the results of the reporting entity's sectoral components, particularly the general fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks.

In addition, the five-year financial framework, i.e. the government's financial forecasts up to 2019-2020, is presented in Section A of this document.

☐ Changes to the presentation of budgetary information

In the December 2014 *Update on Québec's Economic and Financial Situation*, the government continued to improve the presentation of the budget documents by fulfilling its commitment to provide consolidated budgetary information.

Information on the impact of the changes in presentation, and the reasons why the government made these improvements are provided in Section E of the December 2014 Update. The improvement in the information presented in the Update was acknowledged by the Auditor General of Québec in his report of February 26, 2015.

In addition, in keeping with its intention to continue adopting better practices regarding the presentation of budgetary information, the government will gradually implement a consolidated presentation by portfolio between now and Budget 2017-2018. Appendix 3 discusses the objectives of this new presentation, the steps to be taken over the next two years and the results for 2013-2014 by departmental portfolio.

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[1] Throughout this section, the budgetary data for 2014-2015 and subsequent years are forecasts.

1. CHANGE IN CONSOLIDATED REVENUE AND EXPENDITURE

1.1 Change in the budgetary balance

Budget 2015-2016 confirms that fiscal balance will be restored as of 2015-2016.

— The budgetary deficit forecast for 2014-2015 remains at $2 350 million.

Spending will continue to increase, but at a rate below that of revenue. Accordingly, consolidated expenditure will grow by 2.3% in 2014-2015 and 1.5% in 2015-2016, while consolidated revenue will grow by 3.0% and 4.3% respectively.

Deposits of dedicated revenues in the Generations Fund will total $1.3 billion in 2014-2015 and $1.6 billion in 2015-2016.

In addition, the financial framework includes a contingency reserve of $400 million in 2016-2017.

TABLE D.1

Summary of consolidated budgetary transactions from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 293	80 716	83 362
% change	*3.5*	*4.4*	*3.3*
Federal transfers	18 720	19 444	19 929
% change	*0.9*	*3.9*	*2.5*
Consolidated revenue	**96 013**	**100 160**	**103 291**
% change	***3.0***	***4.3***	***3.1***
Expenditure	–86 777	–88 091	–89 721
% change	*2.9*	*1.5*	*1.9*
Debt service	–10 333	–10 483	–10 934
% change	*–2.5*	*1.5*	*4.3*
Consolidated expenditure	**–97 110**	**–98 574**	**–100 655**
% change	***2.3***	***1.5***	***2.1***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236
BUDGETARY BALANCE[1]	**–2 350**	**—**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Adjustments for 2014-2015

Budget 2015-2016 maintains the budgetary deficit forecast at $2 350 million in 2014-2015.

Adjustments related to the economy lead to a $243-million improvement in the budgetary balance. The shortfall of $317 million in own-source revenue is more than offset by a reduction in debt service.

Adjustments related to the economy make it possible to fund the cost of other adjustments to the financial framework, which affect essentially consolidated entities.

TABLE D.2

Adjustments for 2014-2015
(millions of dollars)

	2014-2015		
	Adjustments related to the economy	Other adjustments[1]	Total
BUDGETARY BALANCE – BUDGET 2014-2015			**–2 350**
Consolidated revenue			
Own-source revenue excluding government enterprises			
General fund	–478	–26	–504
Consolidated entities	—	–154	–154
Subtotal	**–478**	**–180**	**–658**
Government enterprises	161	—	161
Own-source revenue	**–317**	**–180**	**–497**
Federal transfers	141	–28	113
Total consolidated revenue	**–176**	**–208**	**–384**
Consolidated expenditure			
Expenditure excluding debt service			
Program spending	—	—	—
Consolidated entities	—	–162	–162
Debt service	419	79	498
Total consolidated expenditure	**419**	**–83**	**336**
Deposits of dedicated revenues in the Generations Fund	**—**	**48**	**48**
TOTAL	**243**	**–243**	**—**
BUDGETARY BALANCE – BUDGET 2015-2016			**–2 350**

[1] Include the recovery measures announced in the December 2014 Update.

1.2 Change in consolidated revenue

This section presents the updated consolidated revenue of the government for 2014-2015 to 2016-2017, as well as the change in this revenue.

The government's revenue will total $96.0 billion in 2014-2015, i.e. $77.3 billion in own-source revenue and $18.7 billion in federal transfers.

Revenue will rise by 3.0% in 2014-2015, 4.3% in 2015-2016 and 3.1% in 2016-2017.

TABLE D.3

Change in consolidated revenue
(millions of dollars)

	Budget 2014-2015		Budget 2015-2016		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Own-source revenue					
Own-source revenue excluding government enterprises	72 685	–658	72 027	75 859	78 567
% change	*4.7*		*4.0*	*5.3*	*3.6*
Government enterprises	5 105	161	5 266	4 857	4 795
% change	*–6.2*		*–3.0*	*–7.8*	*–1.3*
Subtotal	**77 790**	**–497**	**77 293**	**80 716**	**83 362**
% change	***3.9***		***3.5***	***4.4***	***3.3***
Federal transfers	18 607	113	18 720	19 444	19 929
% change	*–1.1*		*0.9*	*3.9*	*2.5*
TOTAL	**96 397**	**–384**	**96 013**	**100 160**	**103 291**
% change	***2.9***		***3.0***	***4.3***	***3.1***

1.2.1 Consolidated own-source revenue excluding government enterprises

Consolidated own-source revenue excluding government enterprises consists chiefly of tax revenue, which is made up of personal income tax, contributions for health services, corporate taxes, school property taxes and consumption taxes. How it changes is closely tied to economic activity in Québec and to changes in the tax systems.

Consolidated own-source revenue excluding government enterprises also includes revenue from other sources, i.e. duties and permits and miscellaneous revenue, such as interest, the sale of goods and services, as well as fines, forfeitures and recoveries.

Most consolidated own-source revenue excluding government enterprises is deposited in the general fund to finance the government's missions. In addition, other revenue is paid, in particular, into special funds (for funding specific programs), the Generations Fund (for reducing the debt), as well as to non-budget-funded bodies and the health and social services and education networks.

❑ Adjustments for 2014-2015

For fiscal 2014-2015, consolidated own-source revenue excluding government enterprises amounts to $72.0 billion, an increase of 4.0% compared with the revenue observed for fiscal 2013-2014.

Compared with the forecast in the June 4, 2014 budget, consolidated own-source revenue excluding government enterprises is adjusted downward by $658 million, of which nearly $275 million is attributable to tax revenue. This represents an adjustment of 0.9% in forecast revenue. The balance of the adjustment is observed primarily in the miscellaneous revenue of consolidated entities, reflecting the recurrence of the lower real revenue observed for 2013-2014.[2]

■ Tax revenue

Revenue from personal income tax is adjusted downward by $404 million for fiscal 2014-2015 compared with Budget 2014-2015. This adjustment is explained essentially by the lower-than-anticipated level of salaries and wages in 2014, which led to lower-than-expected withholdings at source since the beginning of the fiscal year.

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[2] It should be noted that adjustments to the revenue of consolidated entities are usually accompanied by a decrease in spending.

TABLE D.4

Change in consolidated own-source revenue excluding government enterprises

(millions of dollars)

	Budget 2014-2015		Budget 2015-2016		
	2014-2015	Adjustments	2014-2015	2015-2016	2016-2017
Tax revenue					
Personal income tax	27 349	–404	26 945	28 218	29 532
% change	*5.3*		*2.8*	*4.7*	*4.7*
Contributions for health services	6 482	–39	6 443	6 571	6 656
% change	*2.8*		*3.1*	*2.0*	*1.3*
Corporate taxes	5 819	–96	5 723	6 447	6 774
% change	*5.0*		*1.7*	*12.7*	*5.1*
School property tax	1 901	8	1 909	2 030	2 109
% change	*8.6*		*6.9*	*6.3*	*3.9*
Consumption taxes	17 657	259	17 916	18 601	18 606
% change	*2.9*		*4.6*	*3.8*	*0.0*
Other revenue					
Duties and permits	2 506	–16	2 490	2 755	2 761
% change	*15.6*		*13.3*	*10.6*	*0.2*
Miscellaneous revenue	9 670	–322	9 348	9 651	9 893
% change	*2.8*		*4.7*	*3.2*	*2.5*
Generations Fund revenue	1 301	–48	1 253	1 586	2 236
% change	*16.1*		*11.8*	*26.6*	*41.0*
TOTAL	**72 685**	**–658**	**72 027**	**75 859**	**78 567**
% change	***4.7***		***4.0***	***5.3***	***3.6***

Contributions for health services are adjusted downward by $39 million for 2014-2015, also reflecting the lower-than-anticipated growth in salaries and wages in 2014 and 2015.

Revenue from corporate taxes is adjusted downward by $96 million for fiscal 2014-2015. This lower level reflects essentially a one-time adjustment in corporate revenue for previous years, which reduced anticipated tax revenue in 2014-2015. It also takes into account an upward adjustment in the growth of the net operating surplus of corporations in 2014 and 2015.

Revenue from consumption taxes is adjusted upward by $259 million in 2014-2015. This adjustment stems, in particular, from the increase in consumption, excluding food and rent, and in residential construction.

- **Other revenue**

Revenue from duties and permits is adjusted downward by $16 million in 2014-2015, essentially in regard to mining revenues, owing to the downward adjustment in the value of mining production in Québec.

Miscellaneous revenue is adjusted downward by $322 million in 2014-2015, particularly because of the recurrence of the lower level of revenue observed in 2013-2014.

Revenue dedicated to the Generations Fund is adjusted downward by $48 million in 2014-2015, mainly on account of lower-than-forecast investment income.

☐ Outlook for 2015-2016 and 2016-2017

Own-source revenue excluding government enterprises will increase by 5.3% in 2015-2016 and 3.6% in 2016-2017. The higher growth in 2015-2016 reflects, in particular, the anticipated acceleration of economic activity in Québec and the impact of the measures implemented to achieve fiscal balance.

- **Tax revenue**

Personal income tax will grow by 4.7% in 2015-2016 and 2016-2017, to $28.2 billion and $29.5 billion respectively.

- This growth reflects mainly the anticipated change in household income, which represents most of the revenue base subject to personal income tax.
- It also reflects the growing contribution of pension income from private pension plans because of the increase in the number of retirees.
  - Since the early 2000s, pension income has grown at an average annual rate of about 7.0%.
- Lastly, as of 2015-2016, it also takes into account the impact of various fiscal measures announced in the December 2014 Update and this budget.

Contributions for health services will grow by 2.0% in 2015-2016 and 1.3% in 2016-2017, to $6.6 billion and $6.7 billion respectively. This change stems essentially from the anticipated increase of 3.4% in 2015 and 2016 in salaries and wages. In addition, the change in revenue is partly offset by the impact of the measures announced since June 2014, particularly the reduction of the contribution rate for businesses in the primary and manufacturing sectors.

Revenue from corporate taxes will grow by 12.7% in 2015-2016 and 5.1% in 2016-2017, to $6.4 billion and $6.8 billion respectively.

— This change reflects essentially the growth rate of the net operating surplus of corporations, which is expected to be 8.7% in 2015 and 6.5% in 2016, as well as the elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums and the implementation of a temporary surtax on financial institutions, two measures announced in the December 2014 Update.

— The growth in 2015-2016 is also higher because of the non-recurrence of the one-time adjustment in revenue for 2014-2015.

The growth of 6.3% and 3.9% in revenue from the school property tax in 2015-2016 and 2016-2017 respectively is mainly attributed to the increase in property values and changes to the school tax equalization program announced in Budget 2013-2014.

Growth in revenue from consumption taxes will be 3.8% in 2015-2016 and zero in 2016-2017, owing to the fact that consumption, excluding food and rent, will grow by 3.5% in 2015 and $3.8% in 2016.

— In 2015-2016, the growth in consumption tax revenue takes into account the elimination of the reduced rate of the tax on automobile insurance premiums, as well as the terms and conditions of the transitional fiscal pact with the municipalities announced on November 5, 2014.

— In 2016-2017, the annual deposit of $500 million in the Generations Fund from revenue derived from the specific tax on alcoholic beverages, i.e. $400 million more than in 2015-2016, will slow the growth in consumption tax revenue.

■ Other revenue

Revenue from duties and permits will increase by 10.6% in 2015-2016 and 0.2% in 2016-2017. In 2015-2016, this growth is mainly attributed to the additional revenue of the Green Fund since January 1, 2015, arising from the fact that fuel distributors are now subject to Québec's cap-and-trade system for greenhouse gas emission allowances.

Miscellaneous revenue will rise by 3.2% in 2015-2016 and 2.5% in 2016-2017, primarily as a result of the revenue of organizations in the health and social services and education networks and non-budget-funded bodies.

Revenue dedicated to the Generations Fund will increase by $333 million in 2015-2016 to $1.6 billion, essentially because of the increase in the fund's investment income and the deposit of total mining revenues in this fund. The $650-million increase in revenue in 2016-2017 is explained mainly by the additional deposit of $400 million drawn from the specific tax on alcoholic beverages in the Generations Fund. The fund's revenue will thus reach $2.2 billion.

1.2.2 Revenue from government enterprises

☐ Adjustments for 2014-2015

Revenue from government enterprises is adjusted upward by $161 million for 2014-2015. This increase is chiefly explained by the fact that Hydro-Québec's result is better than anticipated due to the cold weather in recent months.

This increase offsets the lower-than-anticipated result of Loto-Québec, which stems primarily from lower revenue in the lottery sector.

☐ Outlook for 2015-2016 and 2016-2017

For 2015-2016 and 2016-2017, revenue from government enterprises, before allocation to the Generations Fund, will stand at $5.0 billion.

- In 2015-2016, the decline of 7.0% stems, in particular, from Hydro-Québec's results for 2014-2015, which reflect the impact of the cold weather for that year.
- For 2016-2017, anticipated revenue will grow slightly, by 0.2%, because of the small increase in the anticipated results of Loto-Québec and the Société des alcools du Québec.

In addition, Hydro-Québec's revenue from the indexation of the price of heritage electricity will be allocated to the Generations Fund. The amount deposited will be $105 million in 2015-2016 and $175 million in 2016-2017, bringing the total revenue from government enterprises to $4.9 billion in 2015-2016 and $4.8 billion in 2016-2017.

Moreover, as of 2015-2016, public spending funded by contributions from Loto-Québec that are not related to its mission will henceforth be funded by budgetary appropriations.[3] Accordingly, revenue from Loto-Québec will increase by $63.9 million a year. This change will have no impact on the government's fiscal framework, because the revenue adjustment will finance the increase in program spending.

The revenue forecast for Loto-Québec also includes the impact of the measures that will be implemented to curb illegal online gambling.[4]

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[3] See the details in the box on page D.14.

[4] The details of the measures to curb illegal online gambling are presented in Section G of this document.

TABLE D.5

Change in revenue from government enterprises

(millions of dollars)

	Budget 2014-2015		Budget 2015-2016		
	2014-2015	Adjustments	2014-2015	2015-2016	2016-2017
Hydro-Québec	3 050	200	3 250	2 750(1)	2 735
Loto-Québec	1 065	–45	1 020	1 130(2)	1 148
Société des alcools du Québec	1 021	—	1 021	1 040(1)	1 045
Other	40	6	46	42(3)	42
Subtotal	**5 176**	**161**	**5 337**	**4 962**	**4 970**
% change	***–4.9***		***–1.7***	***–7.0***	***0.2***
Revenue from Hydro-Québec allocated to the Generations Fund(4)	–71	—	–71	–105	–175
TOTAL	**5 105**	**161**	**5 266**	**4 857**	**4 795**
% change	***–6.2***		***–3.0***	***–7.8***	***–1.3***

(1) Net result to be achieved by the corporation for 2015-2016 for the purposes of paying additional remuneration based on performance.

(2) For the purposes of paying additional remuneration based on performance, the net result to be achieved by Loto-Québec for 2015-2016 is $1 155 million. The government's revenue from Loto-Québec corresponds to the net result minus $25 million for public expenditures related to its mission.

(3) Includes an amount of $43 million from Investissement Québec. This amount corresponds to the net result to be achieved by the corporation for 2015-2016 for the purposes of paying additional remuneration based on performance.

(4) Corresponds to amounts relating to the indexation of the price of heritage electricity.

Refocusing the contributions paid by Loto-Québec on its mission

Until now, Loto-Québec has financed activities similar to regular programs, some of which are not linked to its mission.

To more adequately represent the level of Loto-Québec's net income and the level of public spending, contributions not related to Loto-Québec's mission will henceforth be funded by budgetary appropriations. In 2015-2016, an envelope of $63.9 million will be paid from the budgetary allocations of the departments responsible for funding those activities, i.e.:

- $30.0 million to the Ministère de la Santé et des Services sociaux to support seniors losing their autonomy;
- $19.4 million to the Ministère du Travail, the Ministère de l'Emploi et de la Solidarité sociale and the Ministère des Relations internationales et de la Francophonie to finance the Assistance Fund for Independent Community Action;
- $8.5 million to the Ministère de la Culture et des Communications to support the Orchestre symphonique de Montréal;
- $6.0 million to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation to support farm producers.

Loto-Québec will continue to pay contributions of $22 million to fund the pathological gambling action plan and $3 million to control video lottery terminals.

1.2.3 Revenues from federal transfers

❑ Adjustments for 2014-2015

In 2014-2015, consolidated revenues from federal transfers are expected to reach over $18.7 billion and grow by 0.9 %. This represents $113 million more than forecast in Budget 2014-2015.

This adjustment is explained mainly by a $90-million increase in other programs resulting from the recent settlement of the dispute with the federal government regarding the revenue stabilization program. In that regard, the federal government paid, in March 2015, the $103.4 million claimed by Québec.

❑ Outlook for 2015-2016 and 2016-2017

In 2015-2016, consolidated federal transfers should rise by 3.9%, to $19.4 billion. This positive adjustment is primarily due to:

- a 6.0% increase in transfers for health owing essentially to annual growth of 6% in the Canada Health Transfer (CHT) envelope for the provinces as a whole;
- a 5.9% increase in other programs arising, in particular, from an increase in revenue associated with the Société de financement des infrastructures locales du Québec (SOFIL) because of an anticipated increase in infrastructure work to be carried out in 2015-2016:
  - It should be noted that the mission of SOFIL is to grant financial assistance to municipalities and municipal bodies in order to contribute to municipal infrastructure and public transit projects. Its revenue is derived in particular from the federal contribution under the Canada-Québec agreement on the Gas Tax Fund.

In 2016-2017, consolidated federal transfers should reach $19.9 billion. This represents an increase of 2.5% that results from, among other things, the increase in health transfers arising from annual growth of 6% in the CHT envelope for the provinces as a whole.

- It should be mentioned that as of 2017-2018, growth in the CHT envelope will be limited to the annual growth of Canada's nominal GDP,[5] subject to a floor of 3%.
- Because of this cap, Québec will incur an estimated shortfall of $192 million in 2017-2018.

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[5] Starting in 2017-2018, the growth rate of the CHT envelope will correspond to the average annual growth rate of Canada's nominal GDP over the previous three calendar years. For example, the annual growth rate of Canada's nominal GDP in 2015, 2016 and 2017 will be used to establish the CHT envelope in 2017-2018.

In addition, equalization revenue is expected to rise by 3.2%, particularly because of anticipated growth of 3.6% in the equalization envelope that is capped at Canada's nominal GDP growth.

These increases will be offset by a decrease of 7.8% in other programs that is explained mainly by a decline in revenue following the end of the Canada-Québec agreement on the Communities and Large Urban Centres components of the Building Canada Fund 2007-2014.

TABLE D.6

Change in consolidated federal transfer revenues
(millions of dollars)

	Budget 2014-2015		**Budget 2015-2016**		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Equalization	9 286	—	9 286	9 521	9 826
% change	*18.5*		*18.5*	*2.5*	*3.2*
Health transfers	5 262	20	5 282	5 599	5 963
% change	*–0.5*		*–0.2*	*6.0*	*6.5*
Transfers for post-secondary education and other social programs	1 585	3	1 588	1 609	1 638
% change	*3.3*		*3.5*	*1.3*	*1.8*
Other programs	2 474	90	2 564	2 715	2 502
% change	*–8.2*		*5.7*	*5.9*	*–7.8*
TOTAL	**18 607**	**113**	**18 720**	**19 444**	**19 929**
% change	***–1.1***		***0.9*** (1)	***3.9***	***2.5***

(1) Consolidated federal transfer revenues, which included the second and last payment of $1 467 million for harmonization of the QST with the GST, stood at $18.6 billion in 2013-2014. The growth of 0.9% in consolidated federal transfer revenues in 2014-2015 is explained, in particular, by the non-recurrence of this last payment.

Impact of the price of oil on Québec's equalization payments

Since summer 2014, the price of oil has fallen by more than half, causing major economic upheaval in Canada. The economic outlook of the oil-producing provinces has deteriorated, while the reverse is true for some of the other provinces. How is this situation affecting Québec's equalization payments?

The equalization payments for 2014-2015 and 2015-2016 were established by the Department of Finance Canada in December 2013 and December 2014 respectively and they will not be adjusted. For subsequent years, the decline in the price of oil will restrict the equalization envelope on account of the downward adjustment in the growth of Canada's nominal GDP since fall 2014. For example, the 2016-2017 equalization envelope will be determined using the average growth of Canada's nominal GDP for 2014, 2015 and 2016.

The drop in the price of oil will also have a downward effect on the fiscal capacity[1] of the oil-producing provinces, namely, Alberta, Saskatchewan and Newfoundland and Labrador. Québec's fiscal capacity will thus move closer to that of the average of the ten provinces, thereby reducing its equalization payments as of 2016-2017.

- The decrease in Québec's equalization payments is estimated at $34 million in 2016-2017 and could reach $857 million in 2019-2020. However, this decline is offset by upward adjustments resulting from other factors. It should be noted that these impacts have been taken into account in the forecast for federal transfers.

Impact of the decline in the price of oil on Québec's equalization payments
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020
Equalization before the impact of oil	9 860	10 224	10 774	11 307
Impact of oil	–34	–120	–573	–857
Equalization after the impact of oil	**9 826**	**10 104**	**10 201**	**10 450**

The impact of the negative adjustment in Québec's equalization payments will be gradual due to the smoothing mechanism used in the equalization program.

- For example, the equalization payment for 2016-2017 will take into account the fiscal capacity of the provinces for 2012-2013, 2013-2014 and 2014-2015.

Smoothing mechanism for determining equalization payments

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
25%	25%	50%	→	Payment

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[1] Fiscal capacity is defined as the revenue a province could obtain if it applied, to its tax bases (personal and corporate income tax, consumption taxes, natural resources and property taxes) the average tax rates in effect in the ten provinces. It is its capacity to collect revenue.

1.3 Change in consolidated expenditure

Consolidated expenditure will stand at $97.1 billion in 2014-2015, $98.6 billion in 2015-2016 and $100.7 billion in 2016-2017, representing an increase of 2.3%, 1.5% and 2.1% respectively.

TABLE D.7

Change in consolidated expenditure
(millions of dollars)

	Budget 2014-2015		**Budget 2015-2016**		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Program spending[1]	65 704	—	65 704	66 460	67 889
% change	*1.8*		*2.1*	*1.2*	*2.2*
Other consolidated expenditures[2]	20 911	162	21 073	21 631	21 832
% change	*1.9*		*5.3*	*2.6*	*0.9*
Expenditure excluding debt service	**86 615**	**162**	**86 777**	**88 091**	**89 721**
% change	***1.9***		***2.9***	***1.5***	***1.9***
Debt service	10 831	–498	10 333	10 483	10 934
% change	*2.1*		*–2.5*	*1.5*	*4.3*
TOTAL	**97 446**	**–336**	**97 110**	**98 574**	**100 655**
% change	***1.9***		***2.3***	***1.5***	***2.1***

(1) Program spending includes transfers intended for consolidated entities.
(2) Other consolidated expenditures include, in particular, consolidation adjustments.

☐ Expenditure excluding debt service

■ Adjustments for 2014-2015

In 2014-2015, consolidated expenditure excluding debt service will stand at $86.8 billion, which represents an upward adjustment of $162 million. This adjustment is attributable chiefly to increased spending related to the health and social services sector.

Program spending, which makes up the bulk of consolidated expenditure, has not been adjusted for 2014-2015. The level thus remains at $65.7 billion.

■ Outlook for 2015-2016 and 2016-2017

In 2015-2016 and 2016-2017, consolidated expenditure excluding debt service will amount to $88.1 billion and $89.7 billion respectively.

Growth in expenditure excluding debt service will stand at 1.5% in 2015-2016 and 1.9% in 2016-2017.

- **Program spending**

Adjustments to the program spending objectives in 2015-2016 and 2016-2017 in relation to Budget 2014-2015 stem mainly from reallocations between revenue and expenditure and have no impact on the budgetary balance.

— More specifically, some measures bringing in additional revenue for the government allow reallocations within the financial framework to fund program spending, particularly $130 million in fiscal measures for municipalities.

— Other adjustments arise from reclassifications between different sources of consolidated revenue and expenditure, primarily those related to contributions that were paid by Loto-Québec for public spending not related to its mission.

TABLE D.8

Change in program spending
(millions of dollars)

	2014-2015	2015-2016	2016-2017
PROGRAM SPENDING – BUDGET 2014-2015	**65 704**	**66 141**	**67 631**
% change	***1.8***	***0.7***	***2.3***
Increase in program spending			
Reclassification equivalent to the measures for municipalities agreed to in the December 2014 Update	—	130	130
Reclassification of programs funded by Loto-Québec	—	64	64
Other items, including The Québec Economic Plan	—	125	64
ADJUSTMENTS	**—**	**319**	**258**
PROGRAM SPENDING – BUDGET 2015-2016	**65 704**	**66 460**	**67 889**
% change	***2.1***	***1.2***	***2.2***

Debt service

Adjustments for 2014-2015

In 2014-2015, consolidated debt service should stand at $10.3 billion, i.e. $7.2 billion for direct debt service and $3.1 billion for interest on the liability related to the retirement plans of public and parapublic sector employees. Compared with the June 2014 budget, debt service has been adjusted downward by $498 million in 2014-2015, mainly because of lower-than-expected interest rates.

Outlook for 2015-2016 and 2016-2017

Debt service is expected to rise by 1.5% in 2015-2016 and 4.3% in 2016-2017. The larger increase in 2016-2017 stems from the anticipated increase in interest rates.

TABLE D.9

Change in consolidated debt service
(millions of dollars)

	Budget 2014-2015		Budget 2015-2016		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Direct debt service	7 683	–510	7 173	7 633	8 273
Interest on the retirement plans liability(1)	3 136	13	3 149	2 844	2 658
Interest on the employee future benefits liability(2)	12	–1	11	6	3
TOTAL	**10 831**	**–498**	**10 333**	**10 483**	**10 934**
% change	***2.1***		***–2.5***	***1.5***	***4.3***

(1) This corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.

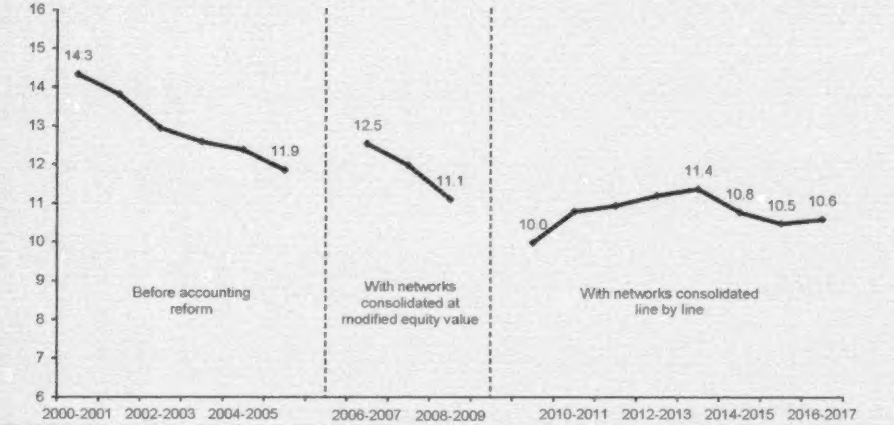
(2) This corresponds to the interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

■ Proportion of revenue devoted to consolidated debt service

The proportion of revenue devoted to consolidated debt service will stand at 10.8% in 2014-2015, 10.5% in 2015-2016 and 10.6% in 2016-2017, compared with 14.3% in 2000-2001.

CHART D.1

Consolidated debt service
(as a percentage of consolidated revenue)



2. FINANCIAL FRAMEWORK BY SECTOR

The consolidated financial framework has several sectoral components included in the government reporting entity that reflect the financial organization of public and parapublic sector activities. Table D.10 presents the forecast revenue and expenditure of these different components for fiscal 2014-2015 to 2016-2017.

Tables D.11 to D.19 present, for 2014-2015 to 2016-2017, the transactions carried out by the general fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks, as well as tax-funded expenditures.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government reporting entity are eliminated.

TABLE D.10

Financial framework for consolidated revenue and expenditure by sector
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
General fund	71 171	74 458	76 956
Special funds	10 698	11 047	11 210
Generations Fund	1 253	1 586	2 236
Specified purpose accounts	1 182	1 055	948
Non-budget-funded bodies	19 703	20 459	21 006
Health and social services and education networks	39 117	39 579	39 858
Tax-funded transfers(1)	6 649	6 308	6 204
Consolidation adjustments(2)	–53 760	–54 332	–55 127
Consolidated revenue	**96 013**	**100 160**	**103 291**
Expenditure			
General fund (program spending)	–65 704	–66 460	–67 889
Special funds	–8 694	–9 336	–9 365
Specified purpose accounts	–1 182	–1 055	–948
Non-budget-funded bodies	–18 523	–19 402	–20 057
Health and social services and education networks	–38 354	–38 774	–38 974
Tax-funded expenditures(1)	–6 649	–6 308	–6 204
Consolidation adjustments(2)	52 329	53 244	53 716
Consolidated expenditure excluding debt service	**–86 777**	**–88 091**	**–89 721**
Debt service			
General fund	–8 164	–8 331	–8 615
Consolidated entities(3)	–2 169	–2 152	–2 319
Consolidated debt service	**–10 333**	**–10 483**	**–10 934**
Consolidated expenditure	**–97 110**	**–98 574**	**–100 655**
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 253	–1 586	–2 236
BUDGETARY BALANCE(4)	**–2 350**	**—**	**—**

(1) Includes doubtful tax accounts.

(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Includes consolidation adjustments.

(4) Budgetary balance within the meaning of the Balanced Budget Act.

2.1 General fund

The general fund is used to finance nearly three quarters of the government's consolidated expenditure.

The revenue of the general fund, including own-source revenue and federal transfers, will amount to $71.2 billion in 2014-2015 and then gradually increase by 4.6% in 2015-2016 and 3.4% in 2016-2017, to $74.5 billion and $77.0 billion respectively.

The expenditure of the general fund, which includes, in particular, program spending, will stand at $73.9 billion in 2014-2015 and then grow by 1.2% in 2015-2016 and 2.3% in 2016-2017, to $74.8 billion and $76.5 billion respectively.

TABLE D.11

Summary of the budgetary transactions of the general fund
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	29 880	32 300	34 148
Consumption taxes	17 377	17 988	17 996
Duties and permits	372	362	389
Miscellaneous revenue	1 444	1 629	1 627
Government enterprises	5 266	4 857	4 795
Own-source revenue	**54 339**	**57 136**	**58 955**
% change	***2.1***	***5.1***	***3.2***
Federal transfers	16 832	17 322	18 001
% change	*1.8*	*2.9*	*3.9*
Total revenue	**71 171**	**74 458**	**76 956**
% change	***2.0***	***4.6***	***3.4***
Expenditure			
Program spending	–65 704	–66 460	–67 889
% change	*2.1*	*1.2*	*2.2*
Debt service	–8 164	–8 331	–8 615
% change	*–3.2*	*2.0*	*3.4*
Total expenditure	**–73 868**	**–74 791**	**–76 504**
% change	***1.5***	***1.2***	***2.3***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–2 697**	**–333**	**52**

Change in the revenue of the general fund

The following table shows the revenue of the general fund according to the reporting structure used in the monthly report on financial transaction.

Revenue of the general fund
(millions of dollars)

	2013-2014	2014-2015	% change	2015-2016	% change
Own-source revenue excluding government enterprises					
Income and property taxes					
Personal income tax	19 399	19 635	1.2	20 950	6.7
Contributions for health services	6 780	6 905	1.8	7 036	1.9
Corporate taxes	3 254	3 340	2.6	4 314	29.2
Consumption taxes	16 607	17 377	4.6	17 988	3.5
Other revenue sources	1 772	1 816	2.5	1 991	9.6
Total own-source revenue excluding government enterprises	**47 812**	**49 073**	**2.6**	**52 279**	**6.5**
Government enterprises	5 430	5 266	–3.0	4 857	–7.8
Total own-source revenue	**53 242**	**54 339**	**2.1**	**57 136**	**5.1**
Federal transfers					
Equalization	7 833	9 286	18.5	9 521	2.5
Health transfers	5 290	4 852(1)	–8.3	5 210(2)	7.4
Transfers for post-secondary education and other social programs	1 534	1 588	3.5	1 609	1.3
Other programs	834	1 106	32.6	982	–11.2
Subtotal	**15 491**	**16 832**	**8.7**	**17 322**	**2.9**
Harmonization of the QST with the GST – Compensation	1 037(3)	—	—	—	—
Total federal transfers	**16 528**	**16 832**	**1.8**	**17 322**	**2.9**
TOTAL	**69 770**	**71 171**	**2.0**	**74 458**	**4.6**

(1) An amount of $430 million from health transfers is being allocated in 2014-2015 to the Fund to Finance Health and Social Services Institutions (FINESSS), which is a consolidated entity. This allocation of $430 million has already been deducted from health transfers which, had it not been for the allocation, would have undergone a change of -0.2%.

(2) An amount of $389 million from health transfers is being allocated in 2015-2016 to FINESSS, which is a consolidated entity. This allocation of $389 million has already been deducted from health transfers which, had it not been for the allocation, would have undergone a change of 6.0%.

(3) Plus an amount of $430 million allocated to FINESSS, bringing total compensation to $1 467 million in 2013-2014.

2.2 Special funds

The special funds consist of 36 entities set up by law to finance certain activities within government departments or bodies.

The activities of special funds may be financed, in particular, through program spending, fees or tax revenues.

The following table shows the forecasts pertaining to special funds for 2014-2015 to 2016-2017.

TABLE D.12

Summary of the budgetary transactions of special funds[1]
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	2 084	2 117	2 072
Consumption taxes	2 416	2 512	2 531
Duties and permits	1 766	2 033	2 001
Miscellaneous revenue	1 806	1 781	2 030
Own-source revenue	**8 072**	**8 443**	**8 634**
Québec government transfers	2 105	2 122	2 096
Federal transfers	521	482	480
Total revenue	**10 698**	**11 047**	**11 210**
% change	***9.6***	***3.3***	***1.5***
Expenditure			
Expenditure excluding debt service	–8 694	–9 336	–9 365
% change	*5.3*	*7.4*	*0.3*
Debt service	–1 372	–1 432	–1 652
Total expenditure	**–10 066**	**–10 768**	**–11 017**
% change	***6.4***	***7.0***	***2.3***
SURPLUS (DEFICIT)	**632**	**279**	**193**

(1) Excludes the Generations Fund.

The revenue of special funds will amount to $10.7 billion for 2014-2015, $11.0 billion for 2015-2016 and $11.2 billion for 2016-2017, representing an increase of 9.6%, 3.3% and 1.5% respectively.

The expenditure excluding debt service of special funds will stand at $8.7 billion in 2014-2015, $9.3 billion in 2015-2016 and $9.4 billion in 2016-2017, representing an increase of 5.3%, 7.4% and 0.3% respectively.

The growth in spending by special funds stems mainly from:

- the Land Transportation Network Fund, for financing road and public transit infrastructure;
- the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP).

The higher growth in expenditure for 2014-2015 can also be attributed to:

- the transfer of the financial management of mandates pertaining to the Québec Health Record to the Health and Social Services Information Resources Fund. Previously, such mandates were the responsibility of the Régie de l'assurance maladie du Québec;
- the additional investments in silvicultural work of the Natural Resources Fund – sustainable forest development component.

TABLE D.13

Expenditure excluding debt service of special funds
(millions of dollars)

	2014-2015	**2015-2016**	**2016-2017**
Land Transportation Network Fund (FORT)	2 484	2 749	2 798
Green Fund	467	796	800
Health and Social Services Information Resources Fund	194	215	215
Natural Resources Fund – sustainable forest development component	453	463	442
Elimination of reciprocal transactions between FORT and the Green Fund	–169	–243	–253
Subtotal	**3 429**	**3 980**	**4 002**
% change	***11.8***	***16.1***	***0.6***
Other special funds[1]	5 265	5 356	5 363
% change	*1.5*	*1.7*	*0.1*
TOTAL	**8 694**	**9 336**	**9 365**
% change	***5.3***	***7.4***	***0.3***

(1) Includes other eliminations of reciprocal transactions between special funds.

Reconciliation of the expenditure budget of special funds with the government's consolidated financial framework

The Secrétariat du Conseil du trésor tables the Special Funds Budget in the National Assembly in order for the expenditure and investment forecasts of these entities to be approved.

Debt service of the Financing Fund is excluded from Parliamentary authorization since the advances received by the fund are derived from loans made by the government. Expenditures to service the debt of these borrowings are already covered by the general fund and are repaid by the clientele of the Financing Fund.

- The Act respecting the Ministère des Finances (CQLR, chapter M-24.01) provides for special treatment of the Financing Fund because of its role as financial intermediary between the general fund and its clientele, which consists of public bodies and special funds.

In addition, the Economic Plan presents the consolidated financial framework of the Québec government including the reporting entity's various sectoral components. The spending forecasts for special funds included in the consolidated financial framework incorporate the elimination of reciprocal transactions between entities in the same sector (i.e. between special funds).

The following table illustrates the reconciliation of the expenditures presented in the special funds' expenditure budget with those presented in the Economic Plan.

Reconciliation of the special funds' expenditure budget with the government's consolidated financial framework
(millions of dollars)

	2015-2016
Expenditure budget of special funds to be approved by the National Assembly	10 609
Debt service of the Financing Fund	1 334
Subtotal	**11 943**
Elimination of reciprocal transactions between special funds(1)	–1 175
Expenditure of special funds presented in the Economic Plan	**10 768**

(1) Including $762 million attributable to reciprocal transactions of the Financing Fund with the other special funds and $294 million attributable to reciprocal transactions of the Land Transportation Network Fund and the Natural Resources Fund with the Green Fund.

2.2.1 Generations Fund

For 2014-2015, 2015-2016 and 2016-2017, revenues dedicated to the Generations Fund will reach $1.3 billion, $1.6 billion and $2.2 billion respectively.

Thus, as March 31, 2017, the book value of the Generations Fund will be $10.8 billion. The results of and change in the Generations Fund are presented in greater detail in Section B of Additional Information.

TABLE D.14

Revenues dedicated to the Generations Fund
(millions of dollars)

	2014-2015	2015-2016[1]	2016-2017
Dedicated revenues			
Water-power royalties	749	756	772
Indexation of the price of heritage electricity	71	105	175
Mining revenues	—	116	171
Specific tax on alcoholic beverages	100	100	500
Unclaimed property	31	25	12
Investment income	302	484	606
TOTAL	**1 253**	**1 586**	**2 236**

(1) Excludes the deposit of $89 million from the accumulated surplus of the Commission des normes du travail.

2.3 Specified purpose accounts

A specified purpose account is a financial management mechanism that enables a government department to record separately sums paid into the Consolidated Revenue Fund by a third party under a contract or agreement that provides for the sums to be allocated to a specific purpose.

The following table shows the forecasts pertaining to specified purpose accounts for 2014-2015 to 2016-2017.

TABLE D.15

Summary of the budgetary transactions of specified purpose accounts
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Miscellaneous revenue	214	187	187
Own-source revenue	**214**	**187**	**187**
Federal transfers	968	868	761
Total revenue	**1 182**	**1 055**	**948**
% change	***16.9***	***–10.7***	***–10.1***
Expenditure			
Expenditure excluding debt service	–1 182	–1 055	–948
Total expenditure	**–1 182**	**–1 055**	**–948**
% change	***16.9***	***–10.7***	***–10.1***
SURPLUS (DEFICIT)	—	—	—

The revenue and expenditure of specified purpose accounts will amount to $1.2 billion for 2014-2015, $1.1 billion for 2015-2016 and $0.9 billion for 2016-2017.

The change in the revenue and expenditure of specified purpose accounts is explained chiefly by:

- the cessation of certain contributions by Loto-Québec through specified purpose accounts and the transfer of funding for these activities through appropriations allocated to program spending as of 2015-2016;
- the end, in 2016-2017, of the financial assistance agreement stemming from the disaster in the town of Lac-Mégantic.

2.4 Non-budget-funded bodies

The 60 non-budget-funded bodies were created to provide specific services to the public.

The following table shows the forecasts pertaining to non-budget-funded bodies for 2014-2015 to 2016-2017.

TABLE D.16

Summary of the budgetary transactions of non-budget-funded bodies
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	70	71	72
Consumption taxes	120	121	122
Duties and permits	410	419	430
Miscellaneous revenue	5 897	6 025	6 061
Own-source revenue	**6 497**	**6 636**	**6 685**
Québec government transfers	12 479	12 734	13 255
Federal transfers	727	1 089	1 066
Total revenue	**19 703**	**20 459**	**21 006**
% change	***1.8***	***3.8***	***2.7***
Expenditure			
Expenditure excluding debt service	–18 523	–19 402	–20 057
% change	*1.8*	*4.7*	*3.4*
Debt service	–919	–843	–836
Total expenditure	**–19 442**	**–20 245**	**–20 893**
% change	***0.9***	***4.1***	***3.2***
SURPLUS (DEFICIT)	**261**	**214**	**113**

The revenue of non-budget-funded bodies will amount to $19.7 billion for 2014-2015, $20.5 billion for 2015-2016 and $21.0 billion for 2016-2017, representing an increase of 1.8%, 3.8% and 2.7% respectively.

The expenditure excluding debt service of non-budget-funded bodies will stand at $18.5 billion in 2014-2015, $19.4 billion in 2015-2016 and $20.1 billion in 2016-2017, representing an increase of 1.8%, 4.7% and 3.4% respectively.

The priority missions of the Régie de l'assurance maladie du Québec and the Prescription Drug Insurance Fund account, in particular, for the higher growth in the revenue and expenditure of non-budget-funded bodies.

The low level of spending by the Société de financement des infrastructures locales du Québec in 2014-2015 can be attributed mainly to the late announcement of the envelopes for the program pertaining to the gasoline tax and Québec's 2014-2019 contribution.

TABLE D.17

Expenditure excluding debt service of non-budget-funded bodies
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Régie de l'assurance maladie du Québec (RAMQ)	11 384	11 760	12 307
Prescription Drug Insurance Fund (PDIF)	3 512	3 566	3 799
Société de financement des infrastructures locales du Québec	340	685	661
Elimination of reciprocal transactions between RAMQ and the PDIF	–3 503	–3 557	–3 789
Subtotal	**11 733**	**12 454**	**12 978**
% change	***3.4***	***6.1***	***4.2***
Other non-budget-funded bodies(1)	6 790	6 948	7 079
% change	*–1.0*	*2.3*	*1.9*
TOTAL	**18 523**	**19 402**	**20 057**
% change	***1.8***	***4.7***	***3.4***

(1) Includes other eliminations of reciprocal transactions between non-budget-funded bodies.

Reconciliation of the expenditure budget of non-budget-funded bodies with the government's consolidated financial framework

The Sécrétariat du Conseil du trésor tables the revenue and expenditure forecasts for non-budget-funded bodies in the National Assembly.

In addition, the Economic Plan presents the consolidated financial framework of the Québec government including the reporting entity's various sectoral components. The forecasts for non-budget-funded bodies included in the consolidated financial framework incorporate:

- the elimination of reciprocal transactions between entities in the same sector;
- the harmonization entries intended to harmonize the entities' forecasts with the government's accounting policies.

The following table illustrates the reconciliation of the expenditures presented in the budget of non-budget-funded bodies with those presented in the Economic Plan.

Reconciliation of the expenditure budget of non-budget-funded bodies with the government's consolidated financial framework
(millions of dollars)

	2015-2016
Expenditure of non-budget-funded bodies to be tabled in the National Assembly	24 158
Elimination of reciprocal transactions between non-budget-funded bodies and harmonizations(1)	–3 913
Expenditure of non-budget-funded bodies presented in the Economic Plan	**20 245**

(1) Including $3.6 billion attributable to reciprocal transactions of the Régie de l'assurance maladie du Québec with the Prescription Drug Insurance Fund.

2.5 Health and social services and education networks

In 2014-2015, the health and social services network is made up of 197 entities. These entities comprise 15 agencies and a regional authority in health and social services, as well as 181 public health and social services institutions.

The structure of the health and social services network was changed with the *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies* (2015, chapter 1), assented to on February 9, 2015. As of April 1, 2015, governance will be reduced to two hierarchical levels consisting of the Ministère de la Santé et des Services sociaux and 34 public institutions.

As for the education networks, they are made up of 132 entities, including 72 school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, 48 CEGEPS, as well as the Université du Québec and its 10 constituents.

The following table shows the forecasts pertaining to the health and social services and education networks for 2014-2015 to 2016-2017.

TABLE D.18

Summary of the budgetary transactions of the health and social services and education networks
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	1 909	2 030	2 109
Miscellaneous revenue	3 978	4 053	4 151
Own-source revenue	**5 887**	**6 083**	**6 260**
Québec government transfers	32 950	33 213	33 340
Federal transfers	280	283	258
Total revenue	**39 117**	**39 579**	**39 858**
% change	***2.1***	***1.2***	***0.7***
Expenditure			
Expenditure excluding debt service	–38 354	–38 774	–38 974
% change	2.2	*1.1*	*0.5*
Debt service	–842	–815	–884
Total expenditure	**–39 196**	**–39 589**	**–39 858**
% change	***2.2***	***1.0***	***0.7***
SURPLUS (DEFICIT)	**–79**	**–10**	**—**

The revenue of organizations in the health and social services and education networks will amount to $39.1 billion for 2014-2015, $39.6 billion for 2015-2016 and $39.9 billion for 2016-2017, representing an increase of 2.1%, 1.2% and 0.7% respectively.

The expenditure excluding debt service of the health and social services and education networks will stand at $38.4 billion in 2014-2015, $38.8 billion in 2015-2016 and $39.0 billion in 2016-2017, representing an increase of 2.2%, 1.1% and 0.5% respectively.

Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies

This Act changes the organization and governance of the health and social services network through regional integration of health and social services, the creation of institutions with broader missions and the introduction of two-hierarchy management in order to promote and simplify access to public services, help to improve the quality and safety of care and make the network more efficient and effective.

To that end, the Act provides for the creation, in each health region, of an integrated health and social services centre resulting from the amalgamation of the health and social services agency and public institutions in the region. However, in the case of the Gaspésie–Îles-de-la-Madeleine, Montérégie and Montréal regions, two, three and five integrated centres are provided for respectively, along with the maintenance of seven unamalgamated institutions and certain grouped institutions.

2.6 Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded transfer expenditures, are recorded in spending rather than as reductions in revenue. Expenditures related to doubtful tax accounts are added to these refundable tax credits.

For fiscal 2014-2015, tax-funded expenditures will stand at $6.6 billion, representing an increase of 5.3%. This change is explained essentially by the implementation of the LogiRénov tax credit.

For 2015-2016 and 2016-2017, tax-funded expenditures will decline by 5.1% and 1.6% respectively. This change is explained by:

- certain measures announced since the June 2014 budget to reduce tax expenditures, in particular:
  - the 20% reduction in the rates of tax credits granted to corporations,
  - the introduction of a minimum eligible expenditure threshold for R&D tax credits and the investment tax credit,
  - harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit;
- some of the measures announced in this budget, including those intended to increase the effectiveness of the sectoral tax assistance granted to corporations and the introduction of a tax shield for individuals.

TABLE D.19

Summary of budgetary transactions relating to tax-funded expenditures
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Personal income tax	4 337	4 244	4 239
Corporate income tax	2 111	1 857	1 752
Consumption taxes	201	207	213
Total revenue	**6 649**	**6 308**	**6 204**
% change	***5.3***	***–5.1***	***–1.6***
Expenditure	**–6 649**	**–6 308**	**–6 204**
% change	***5.3***	***–5.1***	***–1.6***
SURPLUS (DEFICIT)	**—**	**—**	**—**

3. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. These surpluses or net financial requirements take into account changes in the budgetary balance on an accrual basis, resources or requirements arising from the acquisition or disposal of fixed assets, investments, loans and advances, and from other activities such as paying accounts payable and collecting accounts receivable.

As a whole, the government's net financial requirements should amount to $4.7 billion in 2014-2015, $314 million in 2015-2016 and $99 million in 2016-2017.

TABLE D.20

Net financial requirements(1)
(millions of dollars)

	2014-2015	2015-2016	2016-2017
SURPLUS (DEFICIT)	**–1 097**	**1 586**	**2 236**
Non-budgetary transactions			
Investments, loans and advances	–2 372	–1 845	–1 600
Capital expenditures	–3 335	–3 743	–3 192
Retirement plans and employee future benefits	3 468	3 418	3 451
Other accounts	–1 371	270	–994
Total non-budgetary transactions	**–3 610**	**–1 900**	**–2 335**
NET FINANCIAL REQUIREMENTS	**–4 707**	**–314**	**–99**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

☐ Investments, loans and advances

Net financial requirements for investments, loans and advances are estimated at $2.4 billion for fiscal 2014-2015, and at $1.8 billion and $1.6 billion for 2015-2016 and 2016-2017 respectively.

☐ Capital expenditures

In 2014-2015, forecast net financial requirements associated with capital expenditures amount to $3.3 billion.

Forecast net financial requirements attributable to capital expenditures for fiscal 2015-2016 and 2016-2017 stand at $3.7 billion and $3.2 billion respectively.

TABLE D.21

Consolidated net capital investments(1)
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Investments	–7 767	–7 899	–7 185
Depreciation	3 523	3 713	3 921
Net investments	**–4 244**	**–4 186**	**–3 264**
Less: PPP investments(2)	909	443	72
NET CAPITAL INVESTMENTS	**–3 335**	**–3 743**	**–3 192**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Investments made under public-private partnership (PPP) agreements correspond to new commitments that are taken into account in the government's gross debt. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

❑ Retirement plans and employee future benefits

Forecast growth in the non-budgetary balance for the retirement plans and employee future benefits stands at $3.5 billion for fiscal 2014-2015 and at $3.4 billion and $3.5 billion for fiscal 2015-2016 and 2016-2017 respectively, which reduces the government's net financial requirements.

❑ Other accounts

Net financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable and accounts payable.

In 2014-2015, the change in these other accounts provides the government with an increase of approximately $1.4 billion in its net financial requirements. However, the change forecast for other accounts should generate financial surpluses of about $270 million for 2015-2016 and net financial requirements of $1.0 billion for 2016-2017.

The following table shows net financial requirements by sector.

TABLE D.22

Net financial requirements by sector(1)
(millions of dollars)

	2014-2015	2015-2016	2016-2017
General fund	–2 196	1 058	2 563
Consolidated entities(2)	–3 764	–3 047	–4 898
Generations Fund	1 253	1 675	2 236
NET FINANCIAL REQUIREMENTS	**–4 707**	**–314**	**–99**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Excludes the Generations Fund.

APPENDIX 1: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

☐ Sensitivity of the Québec economy to external shocks

The forecasts for the Québec economy are based on numerous analyses, including periodic assessments of the main economic statistics and the results obtained with various econometric models.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors. The most important of these factors are related to the activities of Québec's main trading partners, the United States and the rest of Canada.

■ Impact of external variables on the Québec economy

An analysis conducted with a Structural VAR[6] model has made it possible to estimate, on the basis of historical data, the sensitivity of Québec's economic variables to certain important external variables.

— The findings show that a change of 1% in U.S. real GDP entails, on average, a change of 0.5% in Québec's real GDP.

Moreover, the model makes it possible to quantify the extent to which the economy of Ontario influences that of Québec.

— Accordingly, a change of 1% in Ontario's real GDP gives rise, on average, to a change of 0.4% in Québec's real GDP.

— Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2011, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

TABLE D.23

Impact of external shocks on the growth rate of Québec's real GDP

External shocks of 1%	**Maturity**(1) (quarters)	**Impact on Québec's real GDP** (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed to record the greatest impact on Québec's real GDP, presented in the right-hand column.

Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Global Insight, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

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[6] Vector autoregression. This econometric technique is used to estimate, on the basis of numerous observations, the extent to which changes in one economic variable affect another economic variable (impulse response). The estimates were made using quarterly data from Statistics Canada's 1993 System of National Accounts (SNA 1993), for the 1981-2010 period.

❑ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in the own-source revenue of the general fund given the direct link between tax bases and nominal GDP.

— According to the overall sensitivity analysis, a change of 1 percentage point in nominal GDP has an impact of about $550 million on the own-source revenue of the government's general fund.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables, as well as greater repercussions on certain tax bases and smaller ones on others.

Sensitivity analyses set an average historical relationship between the change in the general fund's own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

— Indeed, for a given year, economic fluctuations may have various impacts on revenue because of changes in the behaviour of economic agents.

— In these situations, the change in the general fund's own-source revenue can be greater or lower than the change in nominal GDP.

TABLE D.24

Sensitivity of own-source revenue to major economic variables

Variables	Growth forecasts for 2015	Impacts for fiscal 2015-2016
Nominal GDP	3.8%	A variation of 1 percentage point changes own-source revenue by roughly $550 million.
– Salaries and wages	3.4%	A variation of 1 percentage point changes personal income tax revenue by about $270 million.
– Employment insurance	1.5%	A variation of 1 percentage point changes personal income tax revenue by roughly $5 million.
– Pension income	7.0%	A variation of 1 percentage point changes personal income tax revenue by around $40 million.
– Net operating surplus of corporations	8.7%	A variation of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Household consumption	3.6%	A variation of 1 percentage point changes QST revenue by about $160 million.
– Residential investments	3.5%	A variation of 1 percentage point changes QST revenue by approximately $20 million.

❑ Sensitivity of debt service to a change in interest rates and exchange rates

A greater-than-anticipated rise in interest rates of 1 percentage point over a full year would increase the consolidated interest expenditure by roughly $250 million.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

APPENDIX 2: IMPACT OF THE PRICE OF OIL AND GAS ON PUBLIC FINANCES

☐ Positive impact on Québec's trade balance

The recent drop in oil prices will have a positive effect for Québec in 2015 and 2016. Québec, which is an importer of oil, will see a reduction in the value of its energy bill, which will have a major positive impact on its trade balance.

- In addition, households will pay less for gasoline and have more leeway. The savings achieved should be injected back into the economy in the form of purchases of other goods and services.
- Businesses will also see lower costs for their energy inputs, which will lead to improved profitability and increased business investment.

However, the net impact of the decline in oil prices will be generally negative for Canada, which is a major producer and exporter of natural resources.

- The drop in oil prices will have a major negative impact on Canada's trade balance due to a decline in the value of exports. In addition, investments in the oil and gas extraction sector should fall.
- However, these repercussions on the Québec and Canadian economies will subside in the coming years since oil prices are expected to gradually increase.

☐ Impact on the government's own-source revenue and expenditure

The decline in the price of oil is also having an effect on the government's financial situation, in particular:

- on the revenues it collects directly in taxes on oil and gas;[7]
- on the expenditures it covers, due to the decrease in the cost of fuel for transportation and the heating of public buildings.

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[7] In this analysis, the expression "oil and gas" refers to gasoline, diesel fuel, fuel oil, and natural gas.

■ Substantial drop in the price of oil since Budget 2014-2015

The prices of the different types of oil and gas have not changed in step with one another since Budget 2014-2015. The decline in the price of oil has resulted essentially in a major decrease in the price of gasoline, which has become more pronounced since the month of September. It has also led, to a lesser degree, to a decrease in the prices of diesel fuel and light fuel oil, whereas the price of natural gas has remained fairly stable.

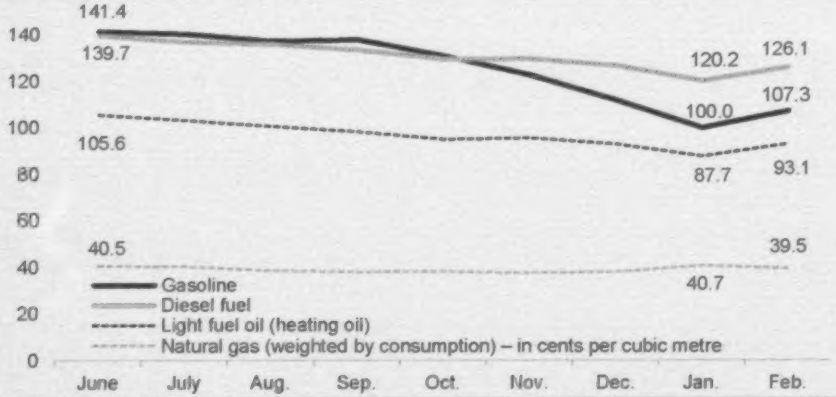
— Since June 2014, the price of gasoline in Québec has fallen from 141.4 cents per litre to 107.3 cents per litre in February 2015, which represents a drop of about 24%.

— In February 2015, the prices of diesel fuel and light fuel oil stood at 126.1 cents per litre and 93.1 cents per litre respectively, representing decreases of 10% and 12% since the month of June 2014.

— The price of natural gas[8] varied little between June 2014 and February 2015, going from 40.5 cents per cubic metre to 39.5 cents per cubic metre, an overall decline of roughly 2%.

CHART D.2

Change in the price of oil and gas from June 2014 to February 2015
(cents per litre)



Sources: Régie de l'énergie, Gaz Métro and Statistics Canada.

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[8] Average price weighted by consumption.

■ A marginal impact on the government's revenue and expenditure

The net impact of the changes in the price of oil and gas observed over the period from July 2014 to February 2015 on revenues related to the taxation of these products and government spending would have been marginal considering generally anticipated reactions.[9]

- — Indeed, the decline in revenue from the QST collected on the sale of oil and gas would be offset by the decrease in public spending on fuel and heating and by the potential increase in revenue from the tax on fuel due to increased consumption.
- — It is estimated that government spending has changed little because of the stability of natural gas prices. In that regard, it should be noted that the government is one of the largest consumers of oil and gas in Québec and that natural gas is the government's largest oil and gas expenditure item.

However, the impact of the drop in the price of oil and gas on the government's revenue and expenditure could have represented a gain of $65 million for the government's fiscal framework, assuming that the decrease in QST revenue derived from the sale of oil products was fully offset by an increase in sales of other taxable goods and services.

TABLE D.25

Estimated impact of the decline in the price of oil and gas on the government's own-source revenue and expenditure
(millions of dollars)

	July 2014 to February 2015
Impact on revenue	
Specific tax on fuel	52.0
Québec sales tax	–64.6
Subtotal	**–12.6**
Impact on expenditure	
Oil products	8.2
Natural gas	5.5
Subtotal	**13.7**
Subtotal – Oil and gas	**1.1**
QST – Other goods and services	64.6
Total impact	**65.7**

Source : Ministère des Finances du Québec.

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[9] The box on page D.48 shows the theoretical impact of an across-the-board decrease of 5 cents per litre per in the price of oil and gas on the government's fiscal framework.

Theoretical illustration of a decrease of 5 cents par litre in the price of oil ans gas

Generally speaking, an across-the-board decrease of 5 cents per litre in the price of the various types of oil and gas leads to a theoretical net gain of about $13 million for the government's fiscal framework.

- In such a case, the decline in revenue from the QST collected on the sale of oil and gas is more than offset by the decrease in spending on fuel and heating and by the increase in revenue from the tax on fuel due to increased consumption.

Theoretical illustration of a decrease of 5 cents per litre in the price of oil and gas on the government's own-source revenue and expenditure
(millions of dollars)

	2014-2015
Impact on revenue	
Specific tax on fuel	26.8
Québec sales tax	–39.9
Subtotal	**–13.1**
Impact on expenditure	
Oil products	5.2
Natural gas	20.8
Subtotal	**26.0**
TOTAL	**12.9**

Source : Ministère des Finances du Québec.

However, this sensitivity analysis does not take into account the impact of the decline in oil and gas prices on the government's other revenue sources, which are harder to quantify, in particular:

- personal income tax, because of lower indexation of the taxation parameters stemming from the impact of the drop in the price of oil on the consumer price index, which increases government revenue:
  - however, a lower indexation rate reduces revenue from fees, since they are indexed to a lesser extent;
- corporate taxes, where the decline in input and transportation costs could boost the profitability of businesses.

In addition, it should be noted that revenue from the sales tax might not be affected by the drop in oil and gas prices if the decrease in revenue from the sale of oil products is generally offset by an increase in sales of other taxed goods and services.

Moreover, in the short and medium term, it is assumed that a decline in the price of oil and gas would not affect the government's oil and gas consumption since the government continues to offer public services.

❑ Impact on federal transfers

The equalization payments for 2014-2015 and 2015-2016 were established by the Department of Finance Canada in December 2013 and December 2014 respectively and they will not be adjusted. For subsequent years, the decline in the price of oil will restrict the equalization envelope on account of the downward adjustment in the growth of Canada's nominal GDP since fall 2014. For example, the 2016-2017 equalization envelope will be determined using the average growth of Canada's nominal GDP for 2014, 2015 and 2016.

The drop in the price of oil will also have a downward effect on the fiscal capacity[10] of the oil-producing provinces, namely, Alberta, Saskatchewan and Newfoundland and Labrador. Québec's fiscal capacity will thus move closer to that of the average of the ten provinces, thereby reducing its equalization payments as of 2016-2017.

- The decrease in Québec's equalization payments is estimated at more than $1.5 billion from 2016-2017 to 2019-2020.
- However, this decline is offset by upward adjustments resulting from other factors.

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[10] Fiscal capacity is defined as the revenue a province could obtain if it applied, to its tax bases (personal and corporate income tax, consumption taxes, natural resources and property taxes) the average tax rates in effect in the ten provinces. It is its capacity to collect revenue.

APPENDIX 3: CONSOLIDATED DATA BY DEPARTMENTAL PORTFOLIO

The budget documents produced by the government present the budgets of each government entity. These documents group these entities by various sectoral components such as program spending, expenditure of special funds or expenditure of non-budget-funded bodies. However, these budgetary data are not presented on a consolidated basis by departmental portfolio.

Like many jurisdictions and with the intention to continue adopting best practices regarding the presentation of budgetary information,[11] the government will gradually implement a new presentation of consolidated data by departmental portfolio between now and 2017-2018.

For the government, producing such information will ensure better monitoring of all public expenditures, whether they are financed by general taxes or by other revenue sources, and to report on them on the same basis.

Definition of a departmental portfolio

To fulfil its missions, the government sets up programs that are administered directly by government departments or bodies.

A portfolio includes all of the programs that fall under the responsibility of a minister.

- The President of the National Assembly has his or her own portfolio, while persons appointed by the National Assembly, such as the Auditor General, are grouped in another portfolio.

Accordingly, excluding the "National Assembly" and "Persons Appointed by the National Assembly" portfolios, there are as many portfolios as there are ministers.

- There are 22 portfolios for 2015-2016.

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[11] Recommendation of the Council on Budgetary Governance of the Organization for Economic Cooperation and Development (OECD), February 18, 2015.

❑ Approach between now and Budget 2017-2018

The approach used to determine the level of consolidated data by portfolio is based on the following three main avenues:

- developing a model for consolidating data by departmental portfolio;
- making the necessary improvements to budgetary information systems in order to adapt the budget documents to the new presentation and provide information for decision-making;
- making any adjustments required for the government management framework, which contributes in particular to optimum use of the resources of the Administration, not only in the case of expenditures financed by general taxes but also in the case of those financed by other sources.

The government will gradually implement the new presentation consolidated by portfolio until Budget 2017-2018.

The approach will be implemented in three phases:

- work in the first phase will make it possible, as of now, to show the most recent, real consolidated revenue and expenditure by portfolio. This presentation is shown in tables D.26 to D.29;
- work in the second phase, which will continue until Budget 2016-2017, is aimed at presenting preliminary consolidated revenue and expenditure for the year coming to an end, i.e. 2015-2016;
- lastly, at the end of the third phase, the government will present, in addition to preliminary data, a forecast for consolidated revenue and expenditure by portfolio for 2017-2018, in its Budget 2017-2018.

The participation of government departments and bodies will be essential to implementing these new policy directions.

Experiences of other Canadian jurisdictions in presenting consolidated budgetary information

Like Québec, most of the Canadian provinces present their budget on a consolidated basis. Although the breakdown of consolidated revenue is similar from one province to the next, there is greater disparity in the presentation of consolidated expenditure.

Most of the provinces present their consolidated expenditure forecasts by mission. Some provinces go further by also presenting consolidated expenditure forecasts by portfolio. This is the case of Ontario, Manitoba and Newfoundland and Labrador.

In addition, Ontario and British Columbia present three-year consolidated forecasts by mission.

With its 26 portfolios (roughly the same number as in Québec), Ontario presents consolidated expenditure forecasts broken down by portfolio over one year, and indicates, for purposes of comparison, preliminary or historical data for the previous three years.

☐ Illustration of consolidated data by portfolio

Tables D.26 and D.27 present consolidated revenue for 2013-2014 by portfolio according to the 2015-2016 budgetary structure. Table D.26 classifies the revenue by sector and Table D.27 by category of revenue.

Tables D.28 and D.29 present consolidated expenditure for 2013-2014 by portfolio according to the 2015-2016 budgetary structure. Table D.28 classifies expenditure by sector and Table D.29, by category of expenditure.

Since some programs are financed by reciprocal transactions between entities in different sectors or portfolios, some eliminations are necessary to avoid recording revenue and expenditure twice.

A list of the entities making up each portfolio is provided after the tables. The list also specifies the type of each entity.

TABLE D.26

Consolidated revenue by portfolio and sector – 2013-2014

(millions of dollars)

	Consolidated Revenue Fund			
Portfolio	**General fund**	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Affaires municipales et Occupation du territoire	17	44		94
Agriculture, Pêcheries et Alimentation	20	—	—	127
National Assembly[2]	1	—	—	1
Conseil du trésor et Administration gouvernementale	2	1	—	—
Conseil exécutif	—	—	—	—
Culture et Communications	2	16	—	21
Développement durable, Environnement et Lutte contre les changements climatiques	11	357	—	6
Économie, Innovation et Exportations	2	346	—	—
Éducation, Enseignement supérieur et Recherche	162	82	—	53
Énergie et Ressources naturelles	61	291	—	1
Famille	16	30	—	—
Finances	67 762[3]	2 075	1 121	465
Forêts, Faune et Parcs	43	410	—	—
Immigration, Diversité et Inclusion	374	—	—	4
Justice	229	95	—	1
Relations internationales et Francophonie	—	—	—	1
Santé et Services sociaux	92	1 519	—	162
Sécurité publique	56	572	—	64
Tourisme	—	140	—	—
Transports	48	3 445	—	—
Travail, Emploi et Solidarité sociale	875	1 240	—	11
Subtotal	**69 773**	**10 663**	**1 121**	**1 011**
Inter-portfolio eliminations[1],[4]				
TOTAL	**69 773**	**10 663**	**1 121**	**1 011**

Note: Presentation according to the 2015-2016 budgetary structure. Some program restructurings have not been incorporated into the data, particularly those pertaining to the activities of local employment centres and communications divisions.

(1) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors (intra-portfolio) or different portfolios (inter-portfolio).

(2) Includes the "Persons Appointed by the National Assembly" portfolio.

(3) Includes the net result of government enterprises, i.e. $5 430 million, consisting of $20 916 million in revenue, $15 399 million in expenditure and $87 million in other adjustments.

(4) Includes the cancellation of inter-portfolio gains for consolidation purposes.

Tax-funded expenditures	Non-budget-funded bodies	Health and social services and education networks	Intra-portfolio eliminations [1]	Consolidated revenue
—	951	—	–373	**733**
—	713	—	–696	**164**
—	—	—	—	**2**
—	1 670	—	–194	**1 479**
—	3	—	–3	**—**
—	450	—	–362	**127**
—	37	—	–10	**401**
—	35	—	–225	**158**
—	251	15 794	–12 301	**4 041**
—	38	—	–35	**356**
—	—	—	—	**46**
6 317	2 616	—	–1 390	**78 966**
—	150	—	–227	**376**
—	—	—	—	**378**
—	191	—	–189	**327**
—	9	—	–5	**5**
—	14 712	23 495	–34 793	**5 187**
—	39	—	–292	**439**
—	120	—	–137	**123**
—	819	—	–344	**3 968**
—	179	—	–1 148	**1 157**
6 317	**22 983**	**39 289**	**–52 724**	**98 433**
				–5 202
6 317	**22 983**	**39 289**	**–52 724**	**93 231**

TABLE D.27

Consolidated revenue by portfolio and category – 2013-2014
(millions of dollars)

Portfolio	Income and property taxes	Consumption taxes	Duties and permits
Affaires municipales et Occupation du territoire	—	—	5
Agriculture, Pêcheries et Alimentation	—	—	26
National Assembly[2]	—	—	—
Conseil du trésor et Administration gouvernementale	—	—	—
Conseil exécutif	—	—	—
Culture et Communications	—	15	—
Développement durable, Environnement et Lutte contre les changements climatiques	—	18	346
Économie, Innovation et Exportations	—	—	2
Éducation, Enseignement supérieur et Recherche	1 793	55	—
Énergie et Ressources naturelles	—	—	72
Famille	—	30	13
Finances	38 199	15 018	249
Forêts, Faune et Parcs	—	—	264
Immigration, Diversité et Inclusion	—	—	51
Justice	—	—	2
Relations internationales et Francophonie	—	—	—
Santé et Services sociaux	950	20	2
Sécurité publique	—	—	39
Tourisme	—	71	—
Transports	—	2 293	1 063
Travail, Emploi et Solidarité sociale	68	—	64
Subtotal	**41 010**	**17 520**	**2 198**
Inter-portfolio eliminations[4]	–1 145	–385	—
TOTAL	**39 865**	**17 135**	**2 198**

Note: Presentation according to the 2015-2016 budgetary structure. Some program restructurings have not been incorporated into the data, particularly those pertaining to the activities of local employment centres and communications divisions.

(1) Includes $386 million in transfers from entities of the Québec government.

(2) Includes the "Persons Appointed by the National Assembly" portfolio.

(3) Represents the net result of government enterprises, consisting of $20 916 million in revenue, $15 399 million in expenditure and $87 million in other adjustments.

(4) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different portfolios. Includes the cancellation of inter-portfolio gains for consolidation purposes.

Miscellaneous revenue	Revenue from government enterprises	Generations Fund	Federal transfers and other(1)	Consolidated revenue
222	—	—	506	**733**
26	—	—	112	**164**
2	—	—	—	**2**
1 479	—	—	—	**1 479**
—	—	—	—	**—**
106	—	—	6	**127**
31	—	—	6	**401**
140	—	—	16	**158**
1 637	—	—	556	**4 041**
236	—	—	48	**356**
3	—	—	—	**46**
3 236	5 430 (3)	1 121	15 713	**78 966**
112	—	—	—	**376**
7	—	—	320	**378**
290	—	—	35	**327**
2	—	—	3	**5**
3 525		—	690	**5 187**
338	—	—	62	**439**
52	—	—	—	**123**
516	—	—	96	**3 968**
258	—	—	767	**1 157**
12 218	**5 430**	**1 121**	**18 936**	**98 433**
–3 286	—	—	–386	**–5 202**
8 932	**5 430**	**1 121**	**18 550**	**93 231**

TABLE D.28

Consolidated expenditure by portfolio and sector – 2013-2014

(millions of dollars)

	Consolidated Revenue Fund			
Portfolio	**General fund**	**Special funds**	**Specific purpose accounts**	**Tax-funded expenditures**
Affaires municipales et Occupation du territoire	1 630	44	94	—
Agriculture, Pêcheries et Alimentation	1 049	—	127	—
National Assembly[2]	251	—	1	—
Conseil du trésor et Administration gouvernementale	946	—	—	—
Conseil exécutif	363	—	—	—
Culture et Communications	662	13	21	263
Développement durable, Environnement et Lutte contre les changements climatiques	167	344	6	—
Économie, Innovation et Exportations	624	269	—	1 377
Éducation, Enseignement supérieur et Recherche	16 639	88	53	102
Énergie et Ressources naturelles	67	216	1	268
Famille	2 536	—	—	2 799
Finances	99	903	465	660
Forêts, Faune et Parcs	476	433	—	14
Immigration, Diversité et Inclusion	165	—	4	—
Justice	864	81	1	—
Relations internationales et Francophonie	106	—	1	—
Santé et Services sociaux	31 088	1 633	162	471
Sécurité publique	1 333	572	64	—
Tourisme	136	137	—	3
Transports	709	2 366	—	4
Travail, Emploi et Solidarité sociale	4 411	1 281	11	356
Inter-portfolio eliminations[1]				
Subtotal	**64 321**	**8 380**	**1 011**	**6 317**
Debt service	8 434	1 983	—	—
TOTAL	**72 755**	**10 363**	**1 011**	**6 317**

Note: Presentation according to the 2015-2016 budgetary structure. Some program restructurings have not been incorporated into the data, particularly those pertaining to the activities of local employment centres and communications divisions.

(1) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors (intra-portfolio)or different portfolios (inter-portfolio).

(2) Includes the "Persons Appointed by the National Assembly" portfolio.

Non-budget-funded bodies	Health and social services and education networks	Intra-portfolio eliminations [1]	Inter-portfolio eliminations [1]	Consolidated expenditure
1 035	—	–373		**2 430**
546	—	–696		**1 026**
—	—	—		**252**
1 540	—	–182		**2 304**
3	—	–3		**363**
471	—	–401		**1 029**
33	—	–10		**540**
35	—	–224		**2 081**
250	15 291	–12 299		**20 124**
39	—	–7		**584**
—	—	—		**5 335**
1 744	—	–1 334		**2 537**
143	—	–241		**825**
—	—	—		**169**
186	—	–189		**943**
9	—	–5		**111**
14 707	23 136	–34 736		**36 461**
38	—	–292		**1 715**
112	—	–136		**252**
766	—	–376		**3 469**
157	—	–1 153		**5 063**
			–3 277	**–3 277**
21 814	**38 427**	**–52 657**	**–3 277**	**84 336**
1 085	923	–107	–1 720	**10 598**
22 899	**39 350**	**–52 764**	**–4 997**	**94 934**

TABLE D.29

Consolidated expenditure by portfolio and category – 2013-2014

(millions of dollars)

Portfolio	Remuneration	Operating
Affaires municipales et Occupation du territoire	83	147
Agriculture, Pêcheries et Alimentation	172	83
National Assembly[1]	162	72
Conseil du trésor et Administration gouvernementale	716	1 549
Conseil exécutif	64	22
Culture et Communications	183	222
Développement durable, Environnement et Lutte contre les changements climatiques	139	66
Économie, Innovation et Exportations	77	144
Éducation, Enseignement supérieur et Recherche	12 489	3 563
Énergie et Ressources naturelles	90	139
Famille	73	39
Finances	861	393
Forêts, Faune et Parcs	258	428
Immigration, Diversité et Inclusion	80	50
Justice	503	302
Relations internationales et Francophonie	58	30
Santé et Services sociaux	23 209	8 645
Sécurité publique	1 132	440
Tourisme	53	106
Transports	517	2 246
Travail, Emploi et Solidarité sociale	502	270
Subtotal	**41 421**	**18 956**
Inter-portfolio eliminations[3]	–1 126	–1 796
TOTAL	**40 295**	**17 160**

Note: Presentation according to the 2015-2016 budgetary structure. Some program restructurings have not been incorporated into the data, particularly those pertaining to the activities of local employment centres and communications divisions.

(1) Includes the "Persons Appointed by the National Assembly" portfolio.

(2) Includes $19 million for the change in the provision for environmental liability attributable to FORT.

(3) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different portfolios.

Doubtful accounts and other allowances	Transfers	Subtotal	Debt service	Consolidated expenditure
5	2 195	**2 430**	78	**2 508**
–5	776	**1 026**	3	**1 029**
—	18	**252**	—	**252**
—	39(2)	**2 304**	160	**2 464**
—	277	**363**	—	**363**
2	622	**1 029**	19	**1 048**
—	335	**540**	—	**540**
131	1 729	**2 081**	96	**2 177**
41	4 031	**20 124**	480	**20 604**
2	353	**584**	—	**584**
—	5 223	**5 335**	—	**5 335**
612	671	**2 537**	10 270	**12 807**
3	136	**825**	3	**828**
—	39	**169**	—	**169**
8	130	**943**	—	**943**
—	23	**111**	—	**111**
30	4 577	**36 461**	357	**36 818**
—	143	**1 715**	—	**1 715**
—	93	**252**	14	**266**
7	699	**3 469**	834	**4 303**
7	4 284	**5 063**	4	**5 067**
843	**26 393**	**87 613**	**12 318**	**99 931**
—	–355	**–3 277**	–1 720	**–4 997**
843	**26 038**	**84 336**	**10 598**	**94 934**

TABLE D.30

List of entities by portfolio

Affaires municipales et Occupation du territoire	
Ministère des Affaires municipales et de l'Occupation du territoire	Dept
Commission municipale du Québec	BFB
Régie du logement	BFB
Regional Development Fund	SF
Société d'habitation du Québec	NBFB
Agriculture, Pêcheries et Alimentation	
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	Dept
Commission de protection du territoire agricole du Québec	BFB
Régie des marchés agricoles et alimentaires du Québec	BFB
La Financière agricole du Québec	NBFB
National Assembly	
National Assembly	Other
Conseil du trésor et Administration gouvernementale	
Secrétariat du Conseil du trésor	Dept
Commission de la fonction publique	BFB
Natural Disaster Assistance Fund	SF
Centre de services partagés du Québec	NBFB
Société québécoise des infrastructures	NBFB
Conseil exécutif	
Ministère du Conseil exécutif	Dept
Commission d'accès à l'information	BFB
Centre de la francophonie des Amériques	NBFB
Culture et Communications	
Ministère de la Culture et des Communications	Dept
Commission de toponymie	BFB
Conseil du patrimoine culturel du Québec	BFB
Conseil supérieur de la langue française	BFB
Office québécois de la langue française	BFB
Québec Cultural Heritage Fund	SF
Bibliothèque et Archives nationales du Québec	NBFB
Conseil des arts et des lettres du Québec	NBFB
Conservatoire de musique et d'art dramatique du Québec	NBFB
Musée d'art contemporain de Montréal	NBFB
Musée de la civilisation	NBFB
Musée national des beaux-arts du Québec	NBFB
Régie du cinéma	NBFB
Société de développement des entreprises culturelles	NBFB
Société de la Place des Arts de Montréal	NBFB
Société de télédiffusion du Québec	NBFB
Société du Grand Théâtre de Québec	NBFB
Développement durable, Environnement et Lutte contre les changements climatiques	
Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques	Dept
Bureau d'audiences publiques sur l'environnement	BFB
Green Fund	SF
Société québécoise de récupération et de recyclage	NBFB

Legend: Dept: department; BFB: budget-funded body; SF: special fund; NBFB: non-budget-funded body; HSSE: health and social services and education networks.

List of entities by portfolio (cont.)

Économie, Innovation et Exportations

Ministère de l'Économie, de l'Innovation et des Exportations	Dept
Commission de l'éthique en science et en technologie	BFB
Economic Development Fund	SF
Centre de recherche industrielle du Québec	NBFB
Société du parc industriel et portuaire de Bécancour	NBFB

Éducation, Enseignement supérieur et Recherche

Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche	Dept
Commission consultative de l'enseignement privé	BFB
Commission d'évaluation de l'enseignement collégial	BFB
Comité consultatif sur l'accessibilité financière aux études	BFB
Conseil supérieur de l'éducation	BFB
Sports and Physical Activity Development Fund	SF
University Excellence and Performance Fund	SF
Institut de tourisme et d'hôtellerie du Québec	NBFB
Institut national des mines	NBFB
Fonds de recherche du Québec – Nature et technologies	NBFB
Fonds de recherche du Québec – Santé	NBFB
Fonds de recherche du Québec – Société et culture	NBFB
Cégeps	HSSE
Commissions scolaires	HSSE
Université du Québec and its constituents	HSSE

Énergie et Ressources naturelles

Ministère de l'Énergie et des Ressources naturelles	Dept
Territorial Information Fund	SF
Natural Resources Fund	SF
Régie de l'énergie	NBFB
Société de développement de la Baie-James	NBFB
Société du Plan Nord	NBFB
Société nationale de l'amiante	NBFB

Famille

Ministère de la Famille	Dept
Curateur public	BFB
Caregiver Support Fund	SF
Early Childhood Development Fund	SF

Finances

Ministère des Finances	Dept
Financing Fund	SF
Generations Fund	SF
Fonds of the Bureau de décision et de révision	SF
Fonds du centre financier de Montréal	SF
Northern Plan Fund	SF
Tax Administration Fund	SF
Autorité des marchés financiers	NBFB
Agence du revenu du Québec	NBFB
Financement-Québec	NBFB
Institut de la statistique du Québec	NBFB
Société de financement des infrastructures locales du Québec	NBFB

List of entities by portfolio (cont.)

Forêts, Faune et Parcs

Ministère des Forêts, de la Faune et des Parcs	Dept
Natural Resources Fund – Sustainable forest development component	SF
Fondation de la faune du Québec	NBFB
Société des établissements de plein air du Québec	NBFB
Société des parcs de sciences naturelles du Québec	NBFB

Immigration, Diversité et Inclusion

Ministère de l'Immigration, de la Diversité et de l'Inclusion	Dept

Justice

Ministère de la Justice	Dept
Comité de la rémunération des juges	BFB
Comité de la rémunération des procureurs aux poursuites criminelles et pénales	BFB
Commission des droits de la personne et des droits de la jeunesse	BFB
Conseil de la justice administrative	BFB
Conseil de la magistrature	BFB
Conseil du statut de la femme	BFB
Directeur des poursuites criminelles et pénales	BFB
Office de la protection du consommateur	BFB
Tribunal des droits de la personne	BFB
Access to Justice Fund	SF
Fonds d'aide aux victimes d'actes criminels	SF
Register Fund of the Ministère de la Justice	SF
Fund of the Administrative Tribunal of Québec	SF
Commission des services juridiques	NBFB
Fonds d'aide aux recours collectifs	NBFB
Office des professions du Québec	NBFB
Société québécoise d'information juridique	NBFB

Persons Appointed by the National Assembly

Ethics Commissioner	BFB
Lobbyists Commissioner	BFB
Chief Electoral Officer	BFB
Public Protector	BFB
Auditor General	BFB

Relations internationales et Francophonie

Ministère des Relations internationales et de la Francophonie	Dept
Office Québec-Amériques pour la jeunesse	BFB
Office Québec-Monde pour la jeunesse	BFB

Santé et Services sociaux

Ministère de la Santé et des Services sociaux	Dept
Commissaire à la santé et au bien-être	BFB
Office des personnes handicapées du Québec	BFB
Fund to Finance Health and Social Services Institutions	SF
Health and Social Services Information Resources Fund	SF
Fund for the Promotion of a Healthy Lifestyle	SF
Corporation d'urgences-santé	NBFB
Prescription Drug Insurance Fund	NBFB
Héma-Québec	NBFB
Institut national de santé publique du Québec	NBFB
Institut national d'excellence en santé et en services sociaux	NBFB
Régie de l'assurance maladie du Québec	NBFB
Public health and social services institutions	HSSE

List of entities by portfolio (cont.)

Sécurité publique

Ministère de la Sécurité publique	Dept
Bureau des enquêtes indépendantes	BFB
Bureau du coroner	BFB
Comité de déontologie policière	BFB
Commissaire à la déontologie policière	BFB
Commissaire à la lutte contre la corruption	BFB
Commission québécoise des libérations conditionnelles	BFB
Régie des alcools, des courses et des jeux	BFB
Police Services Fund	SF
École nationale de police du Québec	NBFB
École nationale des pompiers du Québec	NBFB

Tourisme

Ministère du Tourisme	Dept
Tourism Partnership Fund	SF
Régie des installations olympiques	NBFB
Société du Centre des congrès de Québec	NBFB
Société du Palais des congrès de Montréal	NBFB

Transports

Ministère des Transports	Dept
Commission des transports du Québec	BFB
Rolling Stock Management Fund	SF
Highway Safety Fund	SF
Land Transportation Network Fund	SF
Agence métropolitaine de transport	NBFB
Société de l'assurance automobile du Québec	NBFB
Société des traversiers du Québec	NBFB

Travail, Emploi et Solidarité sociale

Ministère du Travail, de l'Emploi et de la Solidarité sociale	Dept
Commission de l'équité salariale	BFB
Commission des partenaires du marché du travail	BFB
Assistance Fund for Independent Community Action	SF
Labour Market Development Fund	SF
Fonds de la Commission des lésions professionnelles	SF
Fund of the Commission des relations du travail	SF
Goods and Services Fund	SF
Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale	SF
Fonds québécois d'initiatives sociales	SF
Commission de la capitale nationale du Québec	NBFB
Commission des normes du travail	NBFB
Office de la sécurité du revenu des chasseurs et piégeurs cris	NBFB
Régie du bâtiment du Québec	NBFB

APPENDIX 4: ALLOCATION OF REVENUE FROM CONSUMPTION TAXES AND NATURAL RESOURCES

❑ Consumption taxes

Consumption taxes include sales taxes and specific taxes. Sales taxes include, in particular, the Québec sales tax (QST) and the tax on insurance premiums, while specific taxes are applied to fuel, tobacco products and alcoholic beverages. For 2014-2015, revenue from consumption taxes will amount to $17.9 billion, i.e. $14.0 billion from sales taxes and $3.9 billion from specific taxes.

TABLE D.31

Revenue from consumption taxes
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Sales taxes[1]	13 985	14 556	15 002
Fuel	2 327	2 425	2 446
Tobacco products	1 103	1 093	1 027
Alcoholic beverages[2]	501	527	131
TOTAL	**17 916**	**18 601**	**18 606**

(1) Includes revenue from pari mutuel.

(2) Excludes an annual amount of $100 million in 2014-2015 and 2015-2016 and an amount of $500 million in 2016-2017 dedicated to the Generations Fund.

- **Sales taxes**

Within the meaning of the *Act respecting the Québec sales tax*,[12] sales taxes include the QST as well as the tax on insurance premiums, the tax on lodging and the specific duty on new tires. For 2014-2015, sales tax revenue will reach $14.0 billion. More specifically:

— the revenue of the general fund, derived from the QST and the tax on insurance premiums, will amount to $15.9 billion;

— revenue of $75 million, derived mainly from the tax on lodging, is allocated to the Tourism Partnership Fund to promote and develop tourism;

— revenue of nearly $20 million, derived in particular from the specific duty on new tires ($3 per tire), is dedicated to the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) to finance the recycling of used tires.

Consolidated revenue also takes into account the cost of the solidarity tax credit and consolidation adjustments, such as the elimination of reciprocal transactions between entities in different sectors.

TABLE D.32

Allocation of sales tax revenue(1)
(millions of dollars)

	2014-2015	2015-2016	2016-2017
General fund(2)	15 888	16 482	16 951
Tourism Partnership Fund	75	75	75
RECYC-QUÉBEC	18	19	19
Solidarity tax credit and other(3)	–1 996	–2 020	–2 043
TOTAL	**13 985**	**14 556**	**15 002**

(1) Includes the tax on insurance premiums, the tax on lodging and the specific duty on new tires.
(2) Includes revenue from pari mutuel.
(3) Includes, in particular, the solidarity tax credit of $1.8 billion in 2014-2015 and the partial rebate of the QST paid on property and services acquired by institutions in the health and social services and education networks.
Note: The structure of the solidarity tax credit is based on the replaced tax credits and has three components, i.e. a component to compensate for the QST, a component aimed at households that assume eligible housing expenses and a component for individuals living in northern villages.

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[12] CQLR, chapter T-0.1.

■ Specific taxes

▪ Specific tax on fuel

For 2014-2015, the government's own-source revenue from the specific tax on fuel will total $2.3 billion. This amount includes:

- revenue from the specific tax of 19.2 cents per litre and 20.2 cents per litre on gasoline and diesel fuel (non-coloured fuel oil) respectively, paid into the Land Transportation Network Fund (FORT) to finance the road network and public transit infrastructure ($2.2 billion):
  - revenue from FORT also includes revenue from the specific tax of 1 cent per litre of gasoline sold within the territory of the Gaspésie–Îles-de-la-Madeleine administrative region to improve public transportation services in this region ($1 million);
- revenue from the specific tax of 3 cents per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives, paid into the general fund ($16 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT), paid to the AMT, for public transportation services in the metropolitan Montréal region ($101 million).

TABLE D.33

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2014-2015	2015-2016	2016-2017
FORT	2 210	2 306	2 325
General fund	16	17	18
AMT	101	102	103
TOTAL	**2 327**	**2 425**	**2 446**

- **Specific tax on tobacco products**

For 2014-2015, tax revenue from the sale of tobacco products amounts to $1.1 billion, including:

— $972 million paid into the general fund;

— $131 million allocated to various special funds.

TABLE D.34

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2014-2015	2015-2016	2016-2017
General fund	**972**	**962**	**896**
Special funds			
Sports and Physical Activity Development Fund[1]	60	60	60
Québec Cultural Heritage Fund	16	16	16
Fund for the Promotion of a Healthy Lifestyle	20	20	20
Early Childhood Development Fund	15	15	15
Caregiver Support Fund	15	15	15
Fonds Avenir Mécénat Culture[1],[2]	5	5	5
Subtotal	**131**	**131**	**131**
TOTAL	**1 103**	**1 093**	**1 027**

(1) Each of these funds includes an allocation of $5 million in 2014-2015 subject to the passage, by March 31, 2015 at the latest, of the bill entitled *An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016.*

(2) This special fund will be created following the passage of the bill entitled *An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016.*

- **Specific tax on alcoholic beverages**

Tax revenue from the sale of alcoholic beverages totals $601 million in 2014-2015. This revenue will reach $631 million in 2016-2017.

- In 2014-2015 and 2015-2016, $100 million from the specific tax will be allocated to the Generations Fund each year.
- As of 2016-2017, an additional amount of $400 million will be deposited in the Fund, bringing the total deposit from the specific tax on alcoholic beverages in the Generations Fund to $500 million annually.

TABLE D.35

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2014-2015	2015-2016	2016-2017
General fund	501	527	131
Generations Fund	100	100	500
TOTAL	**601**	**627**	**631**

❑ Natural resource duties and permits

The government uses various means to enable Quebecers to benefit from the development of natural resources. It collects revenues from resource development, as well as revenue from the granting of permits.

- An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned. A lease (or right) to produce enables the holder to develop the resource in exchange for the payment of an annual rent.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of resources, the legislation currently stipulates that a portion of the revenue derived from natural resources must be devoted to:

- the Natural Resources Fund, in particular, to finance:
  - activities fostering the development of mineral potential, including geoscientific knowledge acquisition activities, research and development on techniques for the exploration, development, redevelopment and rehabilitation of mining sites and support for the development of Québec entrepreneurship (mining heritage component),
  - forest development work to ensure the sustainability of Québec's forest (sustainable forest development component);
- reduction of the debt through the deposit in the Generations Fund of revenue from mining resources (100% as of 2015-2016) and water-power royalties.

Total revenue from natural resources will stand at $1.1 billion in 2014-2015 and $1.2 billion in 2015-2016.

TABLE D.36

Revenue from natural resources
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Duties and royalties			
Mining	65	125	180
Forest	240	270	279
Water-power	752	759	775
Oil and natural gas	—	—	—
Subtotal	**1 057**	**1 154**	**1 234**
Other duties and permits			
Mining	11	11	11
Forest	30	35	42
Oil and natural gas	1	1	2
Subtotal	**42**	**47**	**55**
TOTAL	**1 099**	**1 201**	**1 289**
Allocation of revenue			
General fund	90	66	84
Special funds(1)	260	263	262
Generations Fund	749	872	943

(1) Includes, in particular, revenue paid into the Natural Resources Fund under the sustainable forest development component and the mining heritage component.

APPENDIX 5: DETAILED CONSOLIDATED FINANCIAL FRAMEWORK

TABLE D.37

Detailed consolidated financial framework
(millions of dollars)

	2014-2015			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenus				
Personal income tax	19 635	1 157	—	—
Contributions for health services	6 905	725	—	—
Corporate taxes	3 340	202	—	—
School property tax	—	—	—	—
Consumption taxes	17 377	2 416	—	—
Duties and permits	372	1 766	—	—
Miscellaneous revenue	1 444	1 806	—	214
Government enterprises	5 266	—	—	—
Generations Fund revenue	—	—	1 253	—
Own-source revenue	**54 339**	**8 072**	**1 253**	**214**
Québec government transfers	—	2 105	—	—
Federal transfers	16 832	521	—	968
Total revenue	**71 171**	**10 698**	**1 253**	**1 182**
Expenditure				
Expenditure	–65 704	–8 694	—	–1 182
Debt service	–8 164	–1 372	—	—
Total expenditure	**–73 868**	**–10 066**	**—**	**–1 182**
Contingency reserve	—			
SURPLUS (DEFICIT)	**–2 697**	**632**	**1 253**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 253	
BUDGETARY BALANCE[3]				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2014-2015

Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 337	—	—	1 816	26 945
—	—	—	–1 187	6 443
2 111	70	—	—	5 723
—	—	1 909	—	1 909
201	120	—	–2 198	17 916
—	410	—	–58	2 490
—	5 897	3 978	–3 991	9 348
—	—	—	—	5 266
—	—	—	—	1 253
6 649	**6 497**	**5 887**	**–5 618**	**77 293**
—	12 479	32 950	–47 534	—
—	727	280	–608	18 720
6 649	**19 703**	**39 117**	**–53 760**	**96 013**
–6 649	–18 523	–38 354	52 329	–86 777
—	–919	–842	964	–10 333
–6 649	**–19 442**	**–39 196**	**53 293**	**–97 110**
				—
—	**261**	**–79**	**–467**	**–1 097**
				–1 253
				–2 350

TABLE D.38

Detailed consolidated financial framework

(millions of dollars)

	2015-2016			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenus				
Personal income tax	20 950	1 178	—	—
Contributions for health services	7 036	734	—	—
Corporate taxes	4 314	205	—	—
School property tax	—	—	—	—
Consumption taxes	17 988	2 512	—	—
Duties and permits	362	2 033	—	—
Miscellaneous revenue	1 629	1 781	—	187
Government enterprises	4 857	—	—	—
Generations Fund revenue	—	—	1 586	—
Own-source revenue	**57 136**	**8 443**	**1 586**	**187**
Federal transfers	—	2 122	—	—
Total revenue	17 322	482	—	868
Expenditure	**74 458**	**11 047**	**1 586**	**1 055**
Dépenses				
Expenditure	–66 460	–9 336	—	–1 055
Debt service	–8 331	–1 432	—	—
Total expenditure	**–74 791**	**–10 768**	**—**	**–1 055**
Contingency reserve	—			
SURPLUS (DEFICIT)	**–333**	**279**	**1 586**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 586	
BUDGETARY BALANCE[3]				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2015-2016				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 244	—	—	1 846	28 218
—	—	—	–1 199	6 571
1 857	71	—	—	6 447
—	—	2 030	—	2 030
207	121	—	–2 227	18 601
—	419	—	–59	2 755
—	6 025	4 053	–4 024	9 651
—	—	—	—	4 857
—	—	—	—	1 586
6 308	**6 636**	**6 083**	**–5 663**	**80 716**
—	12 734	33 213	–48 069	—
—	1 089	283	–600	19 444
6 308	**20 459**	**39 579**	**–54 332**	**100 160**
–6 308	–19 402	–38 774	53 244	–88 091
—	–843	–815	938	–10 483
–6 308	**–20 245**	**–39 589**	**54 182**	**–98 574**
				—
—	**214**	**–10**	**–150**	**1 586**
				–1 586
				—

TABLE D.39

Consolidated financial framework

(millions of dollars)

	2016-2017			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenus				
Personal income tax	22 194	1 204	—	—
Contributions for health services	7 210	662	—	—
Corporate taxes	4 744	206	—	—
School property tax	—	—	—	—
Consumption taxes	17 996	2 531	—	—
Duties and permits	389	2 001	—	—
Miscellaneous revenue	1 627	2 030	—	187
Government enterprises	4 795	—	—	—
Generations Fund revenue	—	—	2 236	—
Own-source revenue	**58 955**	**8 634**	**2 236**	**187**
Québec government transfers	—	2 096	—	—
Federal transfers	18 001	480	—	761
Total revenue	**76 956**	**11 210**	**2 236**	**948**
Expenditure				
Expenditure	–67 889	–9 365	—	–948
Debt service	–8 615	–1 652	—	—
Total expenditure	**–76 504**	**–11 017**	**—**	**–948**
Contingency reserve	–400			
SURPLUS (DEFICIT)	**52**	**193**	**2 236**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–2 236	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2016-2017				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 239	—	—	1 895	29 532
—	—	—	–1 216	6 656
1 752	72	—	—	6 774
—	—	2 109	—	2 109
213	122	—	–2 256	18 606
—	430	—	–59	2 761
—	6 061	4 151	–4 163	9 893
—	—	—	—	4 795
—	—	—	—	2 236
6 204	**6 685**	**6 260**	**–5 799**	**83 362**
—	13 255	33 340	–48 691	—
—	1 066	258	–637	19 929
6 204	**21 006**	**39 858**	**–55 127**	**103 291**
–6 204	–20 057	–38 974	53 716	–89 721
—	–836	–884	1 053	–10 934
–6 204	**–20 893**	**–39 858**	**54 769**	**–100 655**
				–400
—	**113**	**—**	**–358**	**2 236**
				–2 236
				—

Section E

THE QUÉBEC GOVERNMENT'S DEBT

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1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on Québec's debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE E.1

Debt of the Québec government as at March 31
(millions of dollars)

	2014	2015P	2016P	2017P	2018P	2019P	2020P
GROSS DEBT[1]	**197 098**	**206 185**	**210 468**	**214 089**	**216 538**	**218 490**	**219 750**
As a % of GDP	*54.3*	*54.9*	*54.0*	*53.1*	*51.9*	*50.7*	*49.4*
Less: Financial assets, net of other liabilities	−15 837	−15 783	−17 466	−20 059	−23 471	−27 024	−30 380
NET DEBT	**181 261**	**190 402**	**193 002**	**194 030**	**193 067**	**191 466**	**189 370**
As a % of GDP	*50.0*	*50.7*	*49.5*	*48.1*	*46.3*	*44.5*	*42.6*
Less: Non-financial assets	−61 372	−65 616	−69 802	−73 066	−74 868	−76 352	−77 702
DEBT REPRESENTING ACCUMULATED DEFICITS	**119 889**	**124 786**	**123 200**	**120 964**	**118 199**	**115 114**	**111 668**
As a % of GDP	*33.0*	*33.2*	*31.6*	*30.0*	*28.4*	*26.7*	*25.1*

P: Preliminary results for 2015 and forecasts for subsequent years.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

1.1 Gross debt

The gross debt represents the amount of debt issued on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2015, the gross debt should stand at $206 185 million, or 54.9% of GDP. As of 2015-2016, the ratio of gross debt to GDP is expected to gradually decline. It should stand at 49.4% as at March 31, 2020.

TABLE E.2

Gross debt as at March 31
(millions of dollars)

		2014	2015P	2016P	2017P	2018P	2019P	2020P
Consolidated direct debt(1)		174 085	184 975	190 478	196 189	201 679	207 296	212 892
Plus:	Net retirement plans liability	28 537	28 018	28 505	28 691	28 447	27 867	26 977
Plus:	Net employee future benefits liability	135	104	72	32	—	—	—
Less:	Generations Fund	−5 659	−6 912	−8 587	−10 823	−13 588	−16 673	−20 119
GROSS DEBT(1)		**197 098**	**206 185**	**210 468**	**214 089**	**216 538**	**218 490**	**219 750**
As a % of GDP		***54.3***	***54.9***	***54.0***	***53.1***	***51.9***	***50.7***	***49.4***

P: Preliminary results for 2015 and forecasts for subsequent years.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

Retirement plans liability

The net retirement plans liability, which is included in the gross debt, is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The retirement plans liability represents the present value of the retirement benefits the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $79 870 million as at March 31, 2014.

The government created the RPSF in 1993. As at March 31, 2014, the book value of the RPSF stood at $51 333 million.

Thus, the net retirement plans liability represented $28 537 million as at March 31, 2014.

Net retirement plans liability as at March 31, 2014
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	49 130
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	11 404
Other plans[1]	19 336
Subtotal	**79 870**
Less: Retirement Plans Sinking Fund (RPSF)	−51 333
NET RETIREMENT PLANS LIABILITY	**28 537**

(1) The liability for the other plans takes into account the assets of the other plans, including those of the Pension Plan of the Université du Québec.

Employee future benefits liability

The government records in the gross debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2014, the employee future benefits liability stood at $1 422 million.

As at March 31, 2014, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 287 million.

Thus, the net employee future benefits liability was $135 million as at March 31, 2014.

Net employee future benefits liability as at March 31, 2014
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	829
Survivor's pension plan	408
Université du Québec programs	185
Subtotal	**1 422**
Less:	
Accumulated Sick Leave Fund	–854
Survivor's Pension Plan Fund	–433
Subtotal	**–1 287**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**135**

Generations Fund

The Generations Fund was created by the Liberal government in June 2006, through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2015, the book value of the Generations Fund is expected to be $6 912 million.

The sums accumulated in the Generations Fund are expected to amount to $20 119 million as at March 31, 2020.

Generations Fund
(millions of dollars)

	2014-2015^{P}	2015-2016^{P}	2016-2017^{P}	2017-2018^{P}	2018-2019^{P}	2019-2020^{P}
Book value, beginning of year	**5 659**	**6 912**	**8 587**	**10 823**	**13 588**	**16 673**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	654	663	678	693	710	724
Private producers	95	93	94	96	97	100
	749	756	772	789	807	824
Indexation of the price of heritage electricity	71	105	175	270	365	470
Other Hydro-Québec contributions	—	—	—	215	215	215
Mining revenues	—	116	171	216	241	276
Specific tax on alcoholic beverages	100	100	500	500	500	500
Unclaimed property	31	25	12	12	12	12
Investment income	302	484	606	763	945	1 149
Total dedicated revenues	**1 253**	**1 586**	**2 236**	**2 765**	**3 085**	**3 446**
Deposit from the accumulated surplus of the Commission des normes du travail	—	89	—	—	—	—
Total deposits	**1 253**	**1 675**	**2 236**	**2 765**	**3 085**	**3 446**
BOOK VALUE, END OF YEAR	**6 912**	**8 587**	**10 823**	**13 588**	**16 673**	**20 119**

P: Preliminary results for 2014-2015 and forecasts for subsequent years.

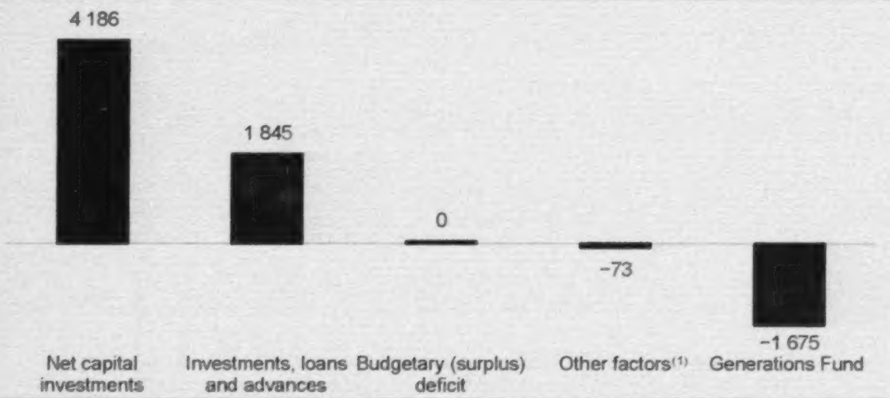
❑ Factors responsible for the growth in the gross debt

In 2015-2016, the gross debt is expected to increase by $4 283 million, because of capital investments ($4 186 million) and investments, loans and advances ($1 845 million).

Deposits in the Generations Fund will help to reduce the gross debt by $1 675 million.

CHART E.1

Factors responsible for the growth in the gross debt in 2015-2016
(millions of dollars)



[1] Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

The table on the next page shows the factors responsible for the growth in the government's gross debt since March 31, 2000.

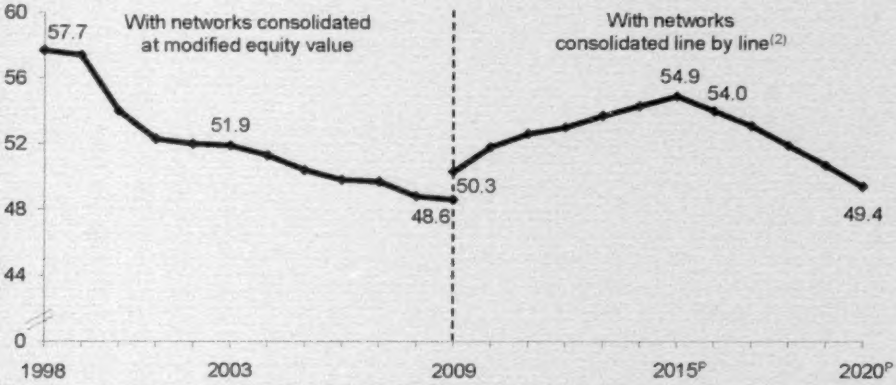
❑ Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.7% of GDP as at March 31, 1998, this ratio stood at 51.9% as at March 31, 2003 and 48.6% as at March 31, 2009. The line-by-line consolidation of the financial statements of institutions in the health and social services and the education networks with those of the government raised the gross-debt-to-GDP ratio to 50.3% as at March 31, 2009.

The increase in the ratio as of 2009 is due to the growth in capital investments and the 2008-2009 recession. The gross debt burden is expected to decrease as of 2015-2016, once the budget has been balanced.

CHART E.2

Gross debt as at March 31(1)
(as a percentage of GDP)



P: Preliminary results for 2015 and forecasts for subsequent years.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) The gross debt takes into account the debt that the health and social services and the education networks have issued in their own name. The data as of 2009 are not comparable with those for prior years since they do not include this debt.

1.2 Net debt

The net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. The net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2015, the net debt is expected to amount to $190 402 million, or 50.7% of GDP. As a proportion of GDP, the net debt will gradually decline as of 2015-2016, to 42.6% as at March 31, 2020.

TABLE E.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Net capital investments	Other(1)	Generations Fund	Total change	Debt, end of year	As a % of GDP
2013-2014	175 498	2 824	3 977	83	−1 121	5 763	181 261	50.0
2014-2015P	181 261	2 350	4 244	3 800	−1 253	9 141	190 402	50.7
2015-2016P	190 402	—	4 186	—	−1 586	2 600	193 002	49.5
2016-2017P	193 002	—	3 264	—	−2 236	1 028	194 030	48.1
2017-2018P	194 030	—	1 802	—	−2 765	−963	193 067	46.3
2018-2019P	193 067	—	1 484	—	−3 085	−1 601	191 466	44.5
2019-2020P	191 466	—	1 350	—	−3 446	−2 096	189 370	42.6

P: Preliminary results for 2014-2015 and forecasts for subsequent years.

(1) For 2013-2014, corresponds to the other comprehensive income items of government enterprises and to changes stemming from inventories and prepaid expenses that are non-financial assets. For 2014-2015, the amount of $3.8 billion corresponds to a provison relative to the adoption of new accounting standards by a government enterprise. This has an impact on the net debt, but does not affect the gross debt.

1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2015, the debt representing accumulated deficits is expected to total $124 786 million, or 33.2% of GDP. As a proportion of GDP, the debt representing accumulated deficits will gradually decline as of 2015-2016, to 25.1% as at March 31, 2020.

The following table shows the factors responsible for the growth in the debt representing accumulated deficits since March 31, 2009.

TABLE E.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Accounting adjustments[1]	Generations Fund	Total change	Debt, end of year	As a % of GDP
2009-2010	103 433	3 174		3 243	−725	5 692	109 125	34.6
2010-2011	109 125	3 150		431	−760	2 821	111 946	34.0
2011-2012	111 946	2 628		1 486	−840	3 274	115 220	33.3
2012-2013	115 220	1 600	1 876	371	−961	2 886	118 106	33.0
2013-2014	118 106	2 824		80	−1 121	1 783	119 889	33.0
2014-2015P	119 889	2 350		3 800	−1 253	4 897	124 786	33.2
2015-2016P	124 786	—		—	−1 586	−1 586	123 200	31.6
2016-2017P	123 200	—		—	−2 236	−2 236	120 964	30.0
2017-2018P	120 964	—		—	−2 765	−2 765	118 199	28.4
2018-2019P	118 199	—		—	−3 085	−3 085	115 114	26.7
2019-2020P	115 114	—		—	−3 446	−3 446	111 668	25.1

P: Preliminary results for 2014-2015 and forecasts for subsequent years.

(1) For 2014-2015, the amount of $3.8 billion corresponds to a provison relative to the adoption of new accounting standards by a government enterprise. This has an impact on the debt representing accumulated deficits, but does not affect the gross debt.

1.4 Debt reduction objectives

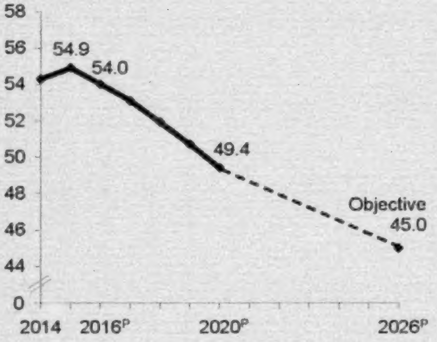
The Québec government has set debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*. For fiscal 2025-2026:

- the gross debt cannot exceed 45% of GDP;
- the debt representing accumulated deficits cannot exceed 17% of GDP.

CHART E.3

Gross debt as at March 31

(as a percentage of GDP)



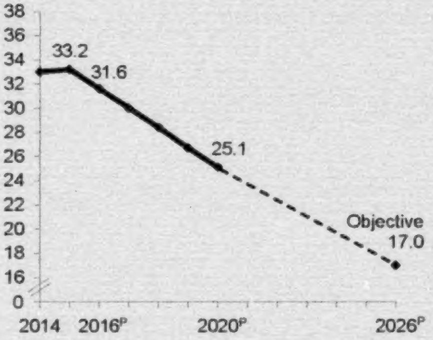
P: Preliminary results for 2015, forecasts for 2016 to 2020 and projections for subsequent years.

Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART E.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



P: Preliminary results for 2015, forecasts for 2016 to 2020 and projections for subsequent years.

To achieve these debt reduction objectives, the government has the Generations Fund, established in 2006, at its disposal. In addition to the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity,[1] the following revenue sources are dedicated to the Generations Fund:

- the revenue generated by the indexation of the price of heritage electricity;
- all mining revenues as of 2015-2016;

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[1] The *Act to reduce the debt and establish the Generations Fund* also provides for the deposit in the Generations Fund of unclaimed property administered by Revenu Québec and income generated by the investment of the sums making up the fund.

- an amount of $215 million per year stemming from Hydro-Québec,[2] as of 2017-2018;
- an amount of $100 million per year, in 2014-2015 and 2015-2016, derived from the specific tax on alcoholic beverages, which will increase to $500 million per year as of 2016-2017.

In addition, the government has decided to deposit in the Generations Fund the accumulated surplus of the Commission des normes du travail, which should amount to $89 million in 2015-2016.

The Generations Fund is expected to amount to $20.1 billion as at March 31, 2020.

TABLE E.6

Generations Fund
(millions of dollars)

	2014-2015^{P}	2015-2016^{P}	2016-2017^{P}	2017-2018^{P}	2018-2019^{P}	2019-2020^{P}
Book value, beginning of year	**5 659**	**6 912**	**8 587**	**10 823**	**13 588**	**16 673**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	654	663	678	693	710	724
Private producers	95	93	94	96	97	100
	749	756	772	789	807	824
Indexation of the price of heritage electricity	71	105	175	270	365	470
Other Hydro-Québec contributions	—	—	—	215	215	215
Mining revenues	—	116	171	216	241	276
Specific tax on alcoholic beverages	100	100	500	500	500	500
Unclaimed property	31	25	12	12	12	12
Investment income	302	484	606	763	945	1 149
Total dedicated revenues	**1 253**	**1 586**	**2 236**	**2 765**	**3 085**	**3 446**
Deposit from the accumulated surplus of the Commission des normes du travail	—	89	—	—	—	—
Total deposits	**1 253**	**1 675**	**2 236**	**2 765**	**3 085**	**3 446**
BOOK VALUE, END OF YEAR	**6 912**	**8 587**	**10 823**	**13 588**	**16 673**	**20 119**

P: Preliminary results for 2014-2015 and forecasts for subsequent years.

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[2] Further to the closing of the Gentilly-2 nuclear power plant, the government decided to deposit in the Generations Fund an amount of $215 million per year, from 2017-2018 to 2043-2044, corresponding to the estimate made in 2012 of Hydro-Québec's annual savings related to the non-refurbishment of the plant.

1.5 Public sector debt

The public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, the municipalities, universities other than the Université du Québec and its constituents, and other government enterprises. This debt has served in particular to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2015, Québec's public sector debt is expected to amount to $274 504 million, or 73.1% of GDP. These figures must be seen in perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE E.7

Public sector debt as at March 31
(millions of dollars)

	2011	2012	2013	2014	2015P
Government's gross debt(1)	173 436	183 384	191 866	197 098	206 185
Hydro-Québec	37 723	38 514	39 631	40 361	41 630
Municipalities(2)	20 307	20 719	21 820	22 622	24 128
Universities other than the Université du Québec and its constituents(3)	1 925	1 797	1 739	1 610	1 610
Other government enterprises(4)	1 363	1 363	1 479	1 142	951
PUBLIC SECTOR DEBT	**234 754**	**245 777**	**256 535**	**262 833**	**274 504**
As a % of GDP	***71.2***	***71.1***	***71.8***	***72.4***	***73.1***

P: Preliminary results.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($4 144 million as at March 31, 2015).

(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($91 million as at March 31, 2015).

(4) These amounts correspond to the debt of the Financing Fund to finance government enterprises and entities not included in the reporting entity.

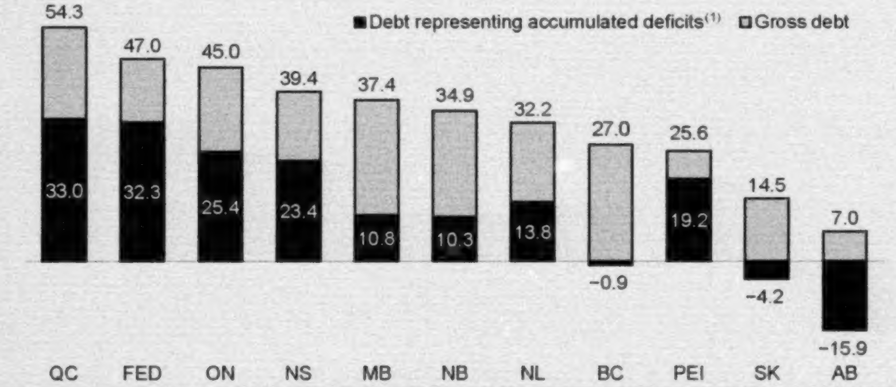
1.6 Comparison of the debt of governments in Canada

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2014, the ratio of Québec's gross debt to GDP was 54.3%, compared with 45.0% in Ontario, the second most indebted province, and 39.4% in Nova Scotia, which ranks third.

CHART E.5

Gross debt and debt representing accumulated deficits as at March 31, 2014
(as a percentage of GDP)



(1) A negative entry means that the government has accumulated surpluses.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The table on the following page shows the debt of the federal government and each province as at March 31, 2014. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and the debt representing accumulated deficits, the gross debt cannot be observed directly in the public accounts of the other provinces. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the same concept used by Québec.

2. FINANCING AND DEBT MANAGEMENT

2.1 Financing program

Based on preliminary results, the 2014-2015 financing program is expected to reach $21 855 million, up $6 821 million in relation to what was forecast in the June 2014 budget. The upward revision in the financing program is explained, in particular, by $8 952 million in pre-financing.

TABLE E.9

The government's financing program, 2014-2015^{P}
(millions of dollars)

	June 2014 budget	Revisions	Revised program
GENERAL FUND			
Net financial requirements(1)(2)	4 165	524	4 689
Repayments of borrowings	7 701	527	8 228
Change in cash position(3)	−5 610	−195	−5 805
Deposits in the Retirement Plans Sinking Fund(4)	—	1 500	1 500
Transactions under the credit policy(5)	−55	−1 780	−1 835
Additional contributions to the Sinking Fund for borrowings	300	300	600
Subtotal	**6 501**	**876**	**7 377**
Pre-financing	—	8 952	8 952
GENERAL FUND	**6 501**	**9 828**	**16 329**
FINANCING FUND	**7 533**	**−2 007**	**5 526**
Subtotal – General fund and Financing Fund	**14 034**	**7 821**	**21 855**
FINANCEMENT-QUÉBEC	**1 000**	**−1 000**	**—**
TOTAL	**15 034**	**6 821**	**21 855**
Including: repayments of borrowings(6)	12 363	585	12 948

P: Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.
(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.
(3) Corresponds to pre-financing for the previous year.
(4) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(5) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.
(6) These amounts include repayments of borrowings of the general fund ($8 228 million), the Financing Fund ($1 209 million) and Financement-Québec ($3 511 million).

TABLE E.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Investments, loans and advances	Net investment in the networks(1)	Net capital investments(2)	Other factors(3)	Deposits in the Generations Fund(4)	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value											
2000-2001	116 761	−427		1 701	841	578	1 108		3 801	120 562	52.3
2001-2002	120 562	−22		1 248	934	1 199	−9		3 350	123 912	52.0
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.9
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.3
2004-2005	133 231	664		1 303	1 486	1 006	−796		3 663	136 894	50.4
2005-2006	136 894	−37		1 488	1 013	1 179	−809		2 834	139 728	49.8
2006-2007	139 728	−109		2 213	1 002	1 177	1 078	−584	4 777	144 505	49.7
2007-2008	144 505	—		2 658	487	1 457	767	−649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	−28	−719	3 289	152 514	48.6
With networks consolidated line by line(5)											
2009-2010	157 630	3 174		1 746		4 226	−2 733	−725	5 688	163 318	51.8
2010-2011	163 318	3 150		2 507		4 923	298	−760	10 118	173 436	52.6
2011-2012	173 436	2 628		1 861		5 071	1 228	−840	9 948	183 384	53.0
2012-2013	183 384	1 600	1 876	659		4 863	445	−961	8 482	191 866	53.7
2013-2014	191 866	2 824		1 349		3 977	−1 497	−1 421	5 232	197 098	54.3
2014-2015	197 098	2 350		2 372		4 244	1 374	−1 253	9 087	206 185	54.9
2015-2016	206 185	—		1 845		4 186	−73	−1 675	4 283	210 468	54.0
2016-2017	210 468	—		1 600		3 264	993	−2 236	3 621	214 089	53.1
2017-2018	214 089	—		2 096		1 802	1 316	−2 765	2 449	216 538	51.9
2018-2019	216 538	—		2 481		1 484	1 072	−3 085	1 952	218 490	50.7
2019-2020	218 490	—		2 178		1 350	1 178	−3 446	1 260	219 750	49.4

(1) The net investment in the networks includes mainly loans by Financement-Québec to the health and social services and the education networks. Since 2009-2010, these items have been part of net capital investments.

(2) Investments made under private-public partnership agreements are included in net capital investments.

(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

(4) Deposits in the Generations Fund in 2013-2014 include $1 121 million in dedicated revenues and $300 million from the accumulated surplus of the Territorial Information Fund. In 2015-2016, deposits in the Generations Fund include $1 586 million in dedicated revenues and $89 million from the accumulated surplus of the Commission des normes du travail.

(5) The line-by-line consolidation of the health and social services and education networks raised the gross debt by $5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.

TABLE E.8

Debt of governments in Canada as at March 31, 2014 according to various concepts

(millions of dollars)

	QC	FED	ON	NS	MB	NB	NL	BC	PEI	SK	AB
Consolidated direct debt	**174 085**	**664 872**	**308 667**	**12 991**	**20 435**	**10 768**	**5 066**	**59 967**	**1 847**	**4 986**	**11 983**
Net retirement plans liability	28 537	153 083	−6 610	581	2 038	−1	3 908	214	−420	7 085	11 600
Net employee future benefits liability	135	71 409	10 747	1 855	458	353	2 554	1 870	54	—	—
Generations Fund	−5 659										
Gross debt	**197 098**	**889 364**	**312 804**	**15 427**	**22 931**	**11 120**	**11 528**	**62 051**	**1 481**	**12 071**	**23 583**
As a % of GDP	*54.3*	*47.0*	*45.0*	*39.4*	*37.4*	*34.9*	*32.2*	*27.0*	*25.6*	*14.5*	*7.0*
Less: Financial assets, net of other liabilities	−15 837	−207 050	−45 614	−665	−5 587	521	−2 443	−23 274	618	−7 456	−34 222
Net debt(1)	**181 261**	**682 314**	**267 190**	**14 762**	**17 344**	**11 641**	**9 085**	**38 777**	**2 099**	**4 615**	**−10 639**
As a % of GDP	*50.0*	*36.0*	*38.4*	*37.7*	*28.3*	*36.5*	*25.4*	*16.9*	*36.3*	*5.5*	*−3.1*
Less: Non-financial assets	−61 372	−70 433	−90 556	−5 613	−10 719	−8 368	−4 148	−40 912	−989	−8 084	−43 232
Debt representing accumulated deficits(1)	**119 889**	**611 881**	**176 634**	**9 149**	**6 625**	**3 273**	**4 937**	**−2 135**	**1 110**	**−3 469**	**−53 871**
As a % of GDP	*33.0*	*32.3*	*25.4*	*23.4*	*10.8*	*10.3*	*13.8*	*−0.9*	*19.2*	*−4.2*	*−15.9*

Note: The boxes indicate the debt concept(s) used in the budget documents of the governments concerned.

(1) A negative entry indicates that the government has net assets or an accumulated surplus.

Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The financing program is expected to reach $12 215 million in 2015-2016, $19 889 million in 2016-2017 and $16 340 million in 2017-2018.

TABLE E.10

The government's financing program, 2015-2016 to 2017-2018

(millions of dollars)

	2015-2016^F	2016-2017^F	2017-2018^F
GENERAL FUND			
Net financial requirements(1),(2)	1 891	727	1 033
Repayments of borrowings	7 370	10 455	5 996
Change in cash position(3)	−8 952	−4 000	−4 000
Subtotal	**309**	**7 182**	**3 029**
Pre-financing	4 000	4 000	4 000
GENERAL FUND	**4 309**	**11 182**	**7 029**
FINANCING FUND	**7 406**	**8 007**	**7 911**
Subtotal – General fund and Financing Fund	**11 715**	**19 189**	**14 940**
FINANCEMENT-QUÉBEC	**500**	**700**	**1 400**
TOTAL	**12 215**	**19 889**	**16 340**
Including: repayments of borrowings(4)	10 525	14 841	11 130

F: Forecasts.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.

(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.

(3) Corresponds to pre-financing for the previous year.

(4) These amounts include repayments of borrowings, for 2015-2016, 2016-2017 and 2017-2018, of the general fund ($7 370 million, $10 455 million and $5 996 million), the Financing Fund ($1 275 million, $1 278 million and $2 038 million) and Financement-Québec ($1 880 million, $3 108 million and $3 096 million).

2.2 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe, Australia and Asia.

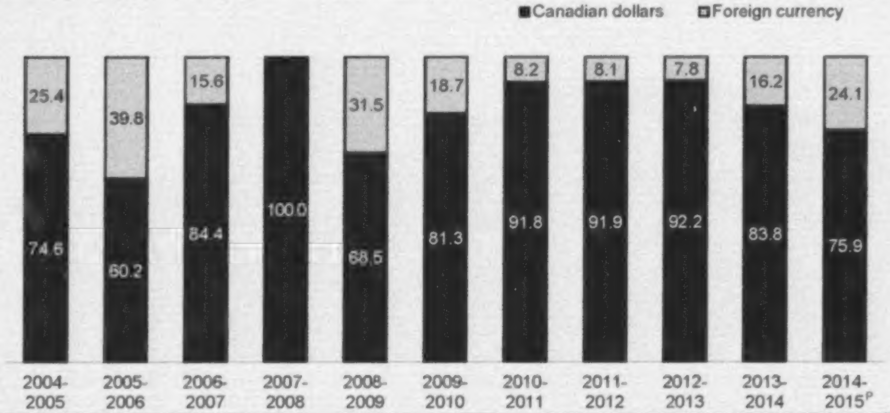
From 2004-2005 to 2013-2014, 16.7% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure of its debt to these currencies (see section 2.5).

In 2014-2015, the government carried out 24.1% of its borrowings on foreign markets, i.e.:

- one issue of €1 750 million (CAN$2 404 million) in January 2015;
- one issue of US$1 600 million (CAN$1 788 million) in October 2014;
- six issues totalling AUS$650 million (CAN$647 million) on various dates;
- one issue of 375 million CHF (CAN$433 million) in November 2014.

CHART E.6

Borrowings by currency[1]
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.

(1) Borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.2.2 Diversification by instrument

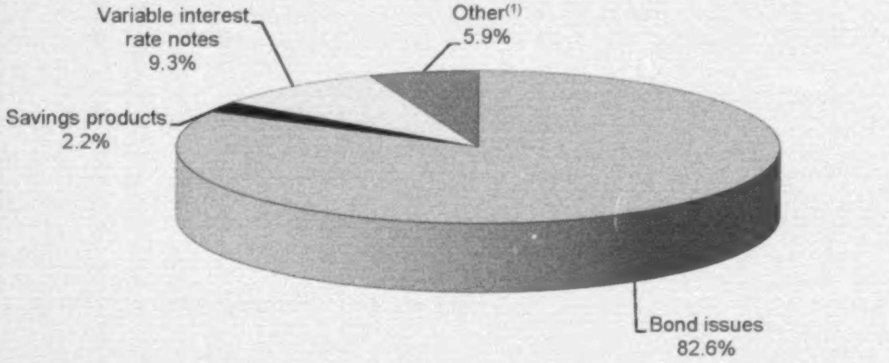
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of bond issues and variable interest rate notes.

In 2014-2015, bond issues represented 82.6% of the instruments used.

CHART E.7

Long-term borrowings contracted in 2014-2015^P by instrument
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.
(1) Business Assistance – Immigrant Investor Program and increase in outstanding Québec Treasury bills.

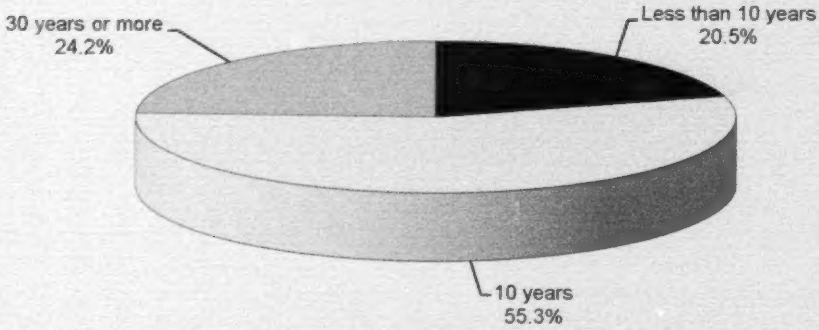
2.2.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In the case of borrowings contracted in 2014-2015, 20.5% had a maturity of less than 10 years, 55.3% a maturity of 10 years and 24.2% a maturity of 30 years or more.

CHART E.8

Long-term borrowings contracted in 2014-2015P by maturity
(per cent)

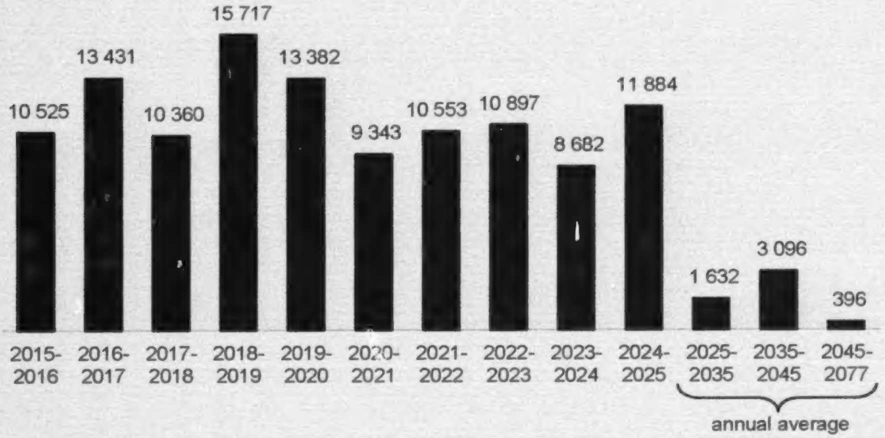


P: Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2015, the average maturity of the debt is expected to be 12 years.

CHART E.9

Maturity of the long-term debt as at March 31, 2015^P
(millions of dollars)



P: Preliminary results.

Note: Direct debt of the general fund, debt issued to make advances to the Financing Fund and debt of Financement-Québec.

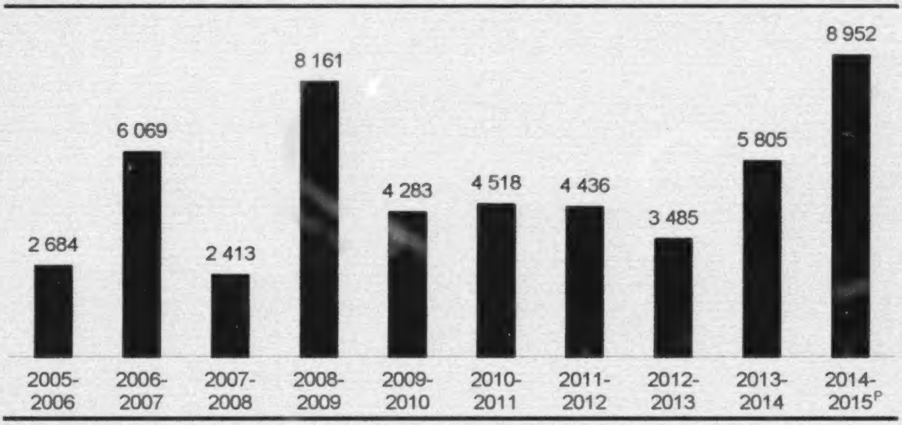
2.3 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2014-2015, the government contracted pre-financing of $8 952 million. The average for the past 10 years is $5 081 million per year.

CHART E.10

Pre-financing
(millions of dollars)



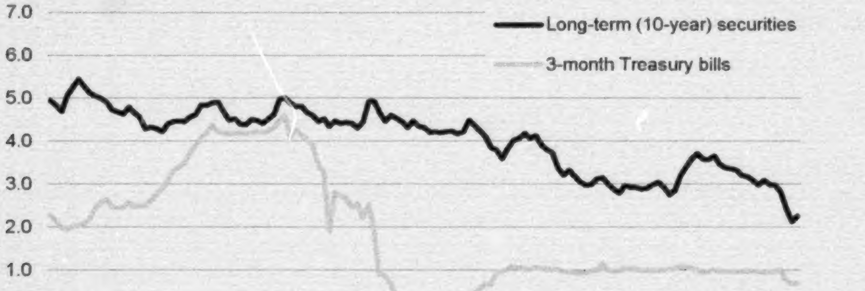
P: Preliminary results.

2.4 Yield

The yield on the Québec government's long-term securities is currently about 2.3%, while that on short-term securities is roughly 0.7%.

CHART E.11

Yield on Québec securities
(per cent)

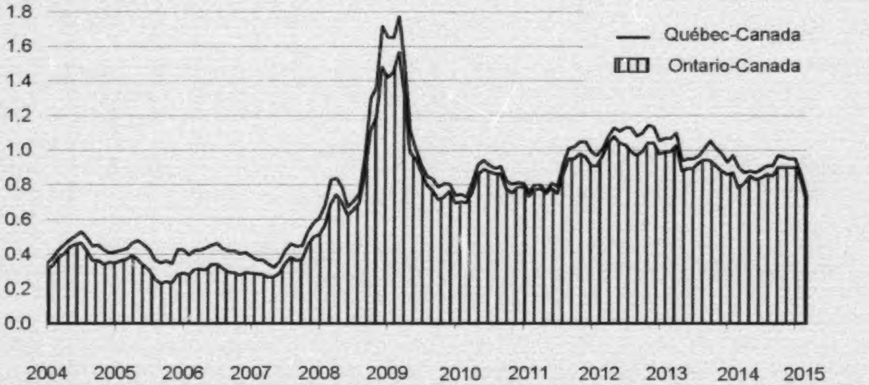


Sources: PC-Bond and Ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART E.12

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.5 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

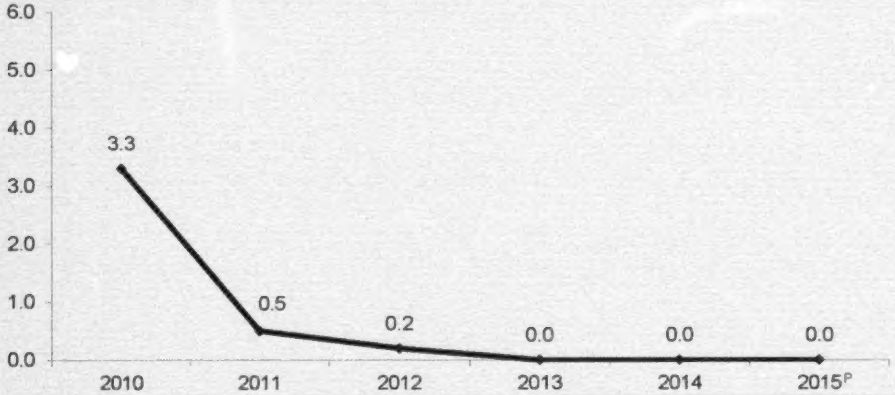
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

☐ Proportion of the gross debt in foreign currency

As at March 31, 2015, the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, is expected to be nil. This proportion was also nil as at March 31, 2014 and March 31, 2013.

CHART E.13

Proportion of the gross debt in foreign currency as at March 31
(per cent)



P: Preliminary results.
Note: Gross debt including pre-financing.

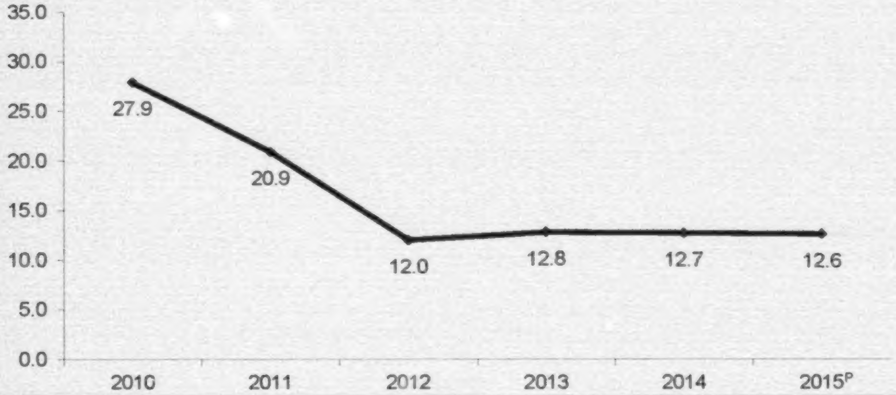
☐ Proportion of the gross debt at variable interest rates

The government keeps part of its debt at variable interest rates and part at fixed interest rates.

After taking into account interest rate and currency swap agreements, the proportion of the gross debt at variable interest rates is expected to be 12.6% as at March 31, 2015.

CHART E.14

Proportion of the gross debt at variable interest rates[1] as at March 31
(per cent)



P: Preliminary results.

Note: Gross debt including pre-financing.

(1) The debt at variable interest rates includes variable interest rate financial instruments as well as fixed interest rate financial instruments that mature in one year or less.

2.6 Borrowings contracted

TABLE E.11

Québec government
Summary of long-term borrowings(1) in 2014-2015P

Currency	$ million	%
CANADIAN DOLLAR		
Bond issues	12 777	58.5
Variable interest rate notes	2 033	9.3
Savings products	478	2.2
Business Assistance - Immigrant Investor Program	720	3.3
Increase in outstanding Québec Treasury bills	575	2.6
Subtotal	**16 583**	**75.9**
OTHER CURRENCIES		
Euro	2 404	11.0
US dollar	1 788	8.2
Australian dollar	647	2.9
Swiss franc	433	2.0
Subtotal	**5 272**	**24.1**
TOTAL	**21 855**	**100.0**

P: Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.

(1) The amounts include the borrowings of the general fund, the borrowings for the Financing Fund and the borrowings of Financement-Québec.

TABLE E.12

Québec government
Borrowings contracted in 2014-2015 – General fund and Financing Fund

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
518	—	3.75	May 7	2024-09-01	103.683	3.325
461	—	3.50	May 13	2045-12-01	92.160	3.936
521	—	3.75	May 16	2024-09-01	104.154	3.271
2 033	—	Variable[4]	May 21	2019-08-21	100.000	Variable[5]
467	—	3.50	May 30	2045-12-01	93.470	3.860
527	—	3.75	June 3	2024-09-01	105.323	3.138
525	—	3.75	June 23	2024-09-01	104.951	3.177
473	—	3.50	June 30	2045-12-01	94.645	3.793
532	—	3.75	August 18	2024-09-01	106.494	2.996
486	—	3.50	August 26	2045-12-01	97.140	3.654
100	AUS$100	4.20	September 10	2025-03-10	99.622	4.245
530	—	3.75	September 12	2024-09-01	105.907	3.058
482	—	3.50	September 16	2045-12-01	96.402	3.695
120	AUS$125	4.20	September 18	2025-03-10	97.372	4.518
167	AUS$175	4.20	September 24	2025-03-10	96.949	4.570
1 788	US$1 600	2.875	October 16	2024-10-16	99.192	2.969
534	—	3.75	October 28	2024-09-01	106.841	2.944
486	—	3.50	November 10	2045-12-01	97.207	3.651
485	—	3.50	November 18	2045-12-01	96.973	3.664
433	375 CHF	0.75[6]	November 21	2024-11-21	99.712	0.780[7]
536	—	3.75	November 21	2024-09-01	107.152	2.904
492	—	3.50	November 24	2045-12-01	98.434	3.584
503	—	5.00	December 8	2041-12-01	125.847	3.510
539	—	3.75	December 9	2024-09-01	107.780	2.829
49	AUS$50	4.20	December 16	2025-03-10	101.703	3.995
503	—	2.75	January 12	2025-09-01	100.504	2.695
501	—	2.75	January 13	2025-09-01	100.274	2.720
2 404	€1 750	0.875[6]	January 15	2025-01-15	99.278	0.951[7]
328	—	3.50	January 16	2022-12-01	109.168	2.224
105	AUS$100	4.20	January 30	2025-03-10	106.813	3.398

TABLE E.12 (cont.)

Québec government
Borrowings contracted in 2014-2015 – General fund and Financing Fund

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
337	—	3.50	January 30	2022-12-01	112.447	1.790
522	—	2.75	February 2	2025-09-01	104.393	2.280
106	AUS$100	4.20	February 17	2025-03-10	109.782	3.063
409	—	5.00	February 23	2041-12-01	136.394	3.010
553	—	3.50	February 24	2045-12-01	110.509	2.976
527	—	2.75	March 3	2025-09-01	105.456	2.166
478[8]	—	Various	Various	Various	Various	Various
720[9]	—	Zero coupon	Various	Various	Various	Various
575[10]	—	Various	Various	Various	Various	Various
21 855						

Note: Borrowings contracted or negotiated as at March 17, 2015.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.

(4) Interest payable quarterly.

(5) Yield to investor is determined on the basis of interest payable quarterly.

(6) Interest payable annually.

(7) Yield to investor is determined on the basis of interest payable annually.

(8) Savings products issued by Épargne Placements Québec.

(9) Business Assistance - Immigrant Investor Program.

(10) This amount corresponds to an increase in outstanding Québec Treasury bills.

TABLE E.13

Borrowings contacted in 2014 by Hydro-Québec

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
12	—	3.308	March 7	2024-03-07	100.000	3.308
9	—	Zero coupon	April 24	2017-04-15	95.018	1.731
1 000	—	Variable[4]	August 28	2019-12-01	100.000	Variable[5]
540	—	4.000	November 4	2055-02-15	108.041	3.619
1 561						

Note: Borrowings contracted from January 1 to December 31, 2014.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.

(4) Interest payable quarterly.

(5) Yield to investor is determined on the basis of interest payable quarterly.

3. INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

3.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 586 524 active participants and 339 228 beneficiaries as at December 31, 2013.

TABLE E.14

Retirement plans of public and parapublic sector employees as at December 31, 2013

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	538 360	236 028
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	29 118	27 575
Other plans:		
– Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	81	44 344
– Civil Service Superannuation Plan (CSSP)(1)	24	19 857
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 800	4 990
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 650	1 753
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	291	361
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	173	166
– Pension Plan of the Members of the National Assembly (PPMNA)	118	413
– Pension Plan of the Université du Québec (PPUQ)	8 909	3 741
Total for other plans	19 046	75 625
TOTAL	**586 524**	**339 228**

(1) These plans have not accepted any new participants since July 1, 1973.
(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.
Source: 2013-2014 Public Accounts.

Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.[3]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[4]

TABLE E.15

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP(1)	PPMP(2)	SPMSQ(3)	PPPOCS(4)
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0
2013	9.18	12.30	8 / 6.2 / 8	6.5
2014	9.84	14.38	8 / 6.2 / 8	8.3
2015	10.50	14.38	8 / 6.2 / 8	9.3

(1) For 2004 to 2012, rate applicable to the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). The contribution formula as of 2012 was changed at the time of the collective agreements' renewal. For 2012, the rate applies to the excess of 33% of the MPE. For 2013, the rate applies to the excess of 31% of the MPE. For 2014, the rate applies to the excess of 29% of the MPE. For 2015, the rate applies to the excess of 27% of the MPE. In 2015, the MPE is $53 600.

(2) Rate applicable to the excess of 35% of the MPE.

(3) Rate applicable up to the annual basic exemption of the RRQ ($3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.

(4) Rate applicable to the excess of 25% of the employee's salary or of 25% of the MPE if it is lower.

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[3] This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

[4] Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Changes in 2010

In 2010, the government modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service. This change, which was agreed upon during the latest renewal of the collective agreements with government employees, was aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

The PPMP was also modified with the adoption of Bill 58 by the National Assembly in 2012. The changes included in the Bill were the product of consultations with participant representatives and included several amendments fostering the financial health of the PPMP. In particular, the pension eligibility criteria were tightened. Since January 1, 2013, new participants must complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction of the benefit for early retirement was increased.

3.1.1 Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans as well as their years of service. This value is called the retirement plans liability. It does not take into account the sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by the CARRA,[5] following the rules of the Canadian Institute of Actuaries (CIA) and the Chartered Professional Accountants of Canada (CPA Canada) for the public sector.

As at March 31, 2014, the liability for the retirement plans of public and parapublic sector employees stood at $79 870 million (net of the plans' assets). This amount is recognized in the government's gross debt.

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[5] Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE E.16

Retirement plans liability

(millions of dollars)

	March 31, 2014
Government and Public Employees Retirement Plan (RREGOP)	49 130
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	11 404
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 288
– Civil Service Superannuation Plan (CSSP)	3 691
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 776
– Pension Plan of the Université du Québec (PPUQ)	3 180
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	755
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	556
– Pension Plan of the Members of the National Assembly (PPMNA)	189
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	138
– Plans' assets(1)	–4 237
Total for other plans	19 336
RETIREMENT PLANS LIABILITY	**79 870**

(1) Plans' assets, particularly those of the PPFEQ, SPMSQ and PPUQ.

☐ Annual retirement plans expenditure

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, net of contributions paid, i.e. $2 129 million in 2013-2014;
- the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $793 million in 2013-2014.

In 2013-2014, government spending in respect of the retirement plans thus stood at $2 922 million.

TABLE E.17

Spending in respect of the retirement plans
(millions of dollars)

	2013-2014
Net cost of vested benefits	2 129
Amortization of revisions stemming from actuarial valuations	793
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 922**

3.1.2 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2015, the RPSF's book value is expected to reach $55 263 million.

TABLE E.18

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Imputed investment income	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	-5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095(1)	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437(1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749(2)	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012	42 265	1 000	2 087	45 352
2012-2013	45 352	1 000	1 992	48 344
2013-2014	48 344	1 000	1 989	51 333
2014-2015P	51 333	1 500	2 430	55 263

P: Preliminary results.

(1) These amounts take into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.

(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2015 is expected to be higher than its market value. However, the difference between these two items has decreased substantially in recent years. As a result of the accounting policies, the difference will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Section 3.4 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower.

TABLE E.19

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	−31
1996-1997	1 014	1 095	−81
1997-1998	1 179	1 321	−142
1998-1999	2 209	2 356	−147
1999-2000	5 040	5 703	−663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	−479
2006-2007	26 877	28 859	−1 982
2007-2008	31 764	32 024	−260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012	45 352	38 222	7 130
2012-2013	48 344	42 562	5 782
2013-2014	51 333	49 034	2 299
2014-2015^{P}	55 263	54 433	830

P: Preliminary results.

❑ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. Nevertheless, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the borrowings contracted to make deposits increase the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE E.20

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	174 085	175 085	1 000
	Retirement plans liability	79 870	79 870	—
	Less: Book value of the RPSF	−51 333	−52 333	−1 000
(B)	Net retirement plans liability	28 537	27 537	−1 000
(C)	Net employee future benefits liability	135	135	—
(D)	Less: Generations Fund	−5 659	−5 659	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**197 098**	**197 098**	**—**

(1) Illustration based on results as at March 31, 2014.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. Indeed, the rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 16 years out of 21.

TABLE E.21

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the RPSF	Cost of new borrowings[1]	**Difference** (percentage points)
1994	−3.3[2]	9.2	−12.5
1995	17.0	8.9	8.1
1996	16.1	7.7	8.4
1997	13.4	6.5	6.9
1998	10.4	5.8	4.6
1999	15.3	6.0	9.3
2000	7.2	6.5	0.7
2001	−4.7	6.1	−10.8
2002	−8.5	5.8	−14.3
2003	14.9	5.2	9.7
2004	11.4	5.0	6.4
2005	13.5	4.5	9.0
2006	13.5	4.6	8.9
2007	5.2	4.7	0.5
2008	−25.6	4.5	−30.1
2009	10.7	4.4	6.3
2010	13.4	4.1	9.3
2011	3.5	3.7	−0.2
2012	9.4	3.0	6.4
2013	12.6	3.3	9.3
2014	11.9	3.2	8.7

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) From February to December 1994.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

❑ A flexible deposit policy

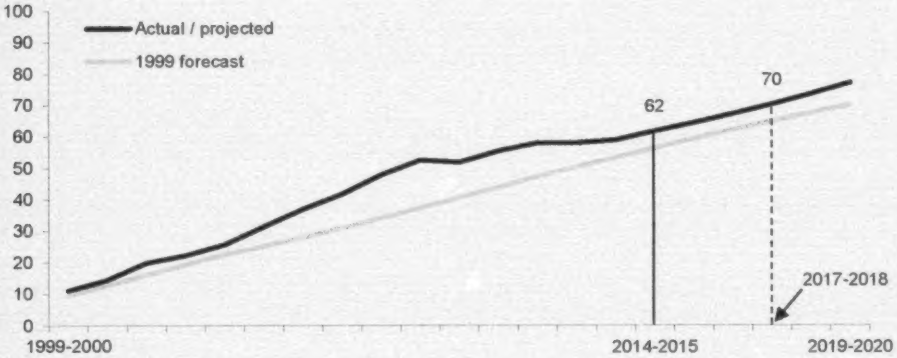
In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the necessary flexibility in applying this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

As at March 31, 2015, the RPSF's book value is expected to represent 62% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the objective of 70% should be attained two years earlier than anticipated, i.e. in 2017-2018.

CHART E.15

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



3.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation. As at March 31, 2015, the market value of the Generations Fund is expected to be higher than its book value.

TABLE E.22

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007(1)	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	−87
2011-2012	4 277	4 375	−98
2012-2013	5 238	5 550	−312
2013-2014	5 659	6 299	−640
2014-2015P	6 912	7 749	−837

P: Preliminary results.
(1) The first deposit in the Generations Fund was made on January 31, 2007.

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government seven years out of eight.

TABLE E.23

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the Generations Fund	Cost of new borrowings(1)	Difference (percentage points)
2007	5.6(2)	4.7	0.9
2008	−22.4	4.5	−26.9
2009	11.3	4.4	6.9
2010	12.3	4.1	8.2
2011	4.0	3.7	0.3
2012	8.4	3.0	5.4
2013	12.0	3.3	8.7
2014	11.7	3.2	8.5

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2014, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec was 11.93% for the RPSF, 11.67% for the Generations Fund and 11.90% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page E.48.

TABLE E.24

Market value and return in 2014 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2014
	(%)	($ million)
Retirement Plans Sinking Fund	11.93	53 433
Generations Fund	11.67	7 462
Accumulated Sick Leave Fund	11.90	942

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 11.93% in 2014. Its market value was $53 433 million as at December 31, 2014.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 35.75% fixed-income securities (bonds, real estate debt, etc.), 16.0% inflation-sensitive investments (real estate and infrastructure) and 48.25% equities. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE E.25

Investment policy of the RPSF as at January 1, 2015
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole[1]
Fixed-income securities	35.75	34.6
Inflation-sensitive investments	16.00	16.9
Equities	48.25	46.5
Other investments	—	2.0
TOTAL	**100.00**	**100.0**

[1] Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate an annual return of 6.45%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 11.25% in 2014.

3.3.2 Generations Fund

The Generations Fund posted a return of 11.67% in 2014. Its market value was $7 462 million as at December 31, 2014.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the Generations Fund consists of 41.0% fixed-income securities (bonds, real estate debt, etc.), 14.0% inflation-sensitive investments (real estate and infrastructure) and 45.0% equities.

TABLE E.26

Investment policy of the Generations Fund as at January 1, 2015
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Fixed-income securities	41.0	34.6
Inflation-sensitive investments	14.0	16.9
Equities	45.0	46.5
Other investments	—	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

The investment policy of the Generations Fund aims to achieve a long-term annual return of 6.45%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and is the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 11.05% in 2014.

3.3.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) posted a return of 11.90% in 2014. Its market value was $942 million as at December 31, 2014.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. The ASLF's investment policy is identical to that of the RPSF. The ASLF's benchmark portfolio would have generated a return of 11.25% in 2014.

Comparison of investment policies

Investment policies as at January 1, 2015
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Short-Term Investments	1.0	1.0	1.1
Bonds	28.75	34.0	27.0
Long-Term Bonds	0.0	0.0	1.0
Real Estate Debt	6.0	6.0	5.5
Total – Fixed Income	**35.75**	**41.0**	**34.6**
Real Return Bonds	0.0	0.0	0.6
Infrastructure	5.0	4.5	4.9
Real Estate	11.0	9.5	11.4
Total – Inflation-Sensitive Investments	**16.0**	**14.0**	**16.9**
Canadian Equity	11.75	10.0	11.4
Global Equity	—	—	2.0
Global Quality Equity	10.5	10.0	6.6
US Equity	4.5	5.0	5.5
Foreign Equity (EAFE)	4.5	5.0	5.3
Emerging Markets Equity	5.0	5.0	5.0
Private Equity	12.0	10.0	10.7
Total – Equity	**48.25**	**45.0**	**46.5**
Hedge Funds	—	—	2.0
Total – Other Investments	**0.0**	**0.0**	**2.0**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
EAFE: Europe, Australasia, Far East.
(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

3.4 Interest on the retirement plans liability

The government records an interest charge on the retirement plans liability. This stems from the fact that, historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. However, the investment income of the RPSF must be subtracted from this amount. The interest charge on the retirement plans liability is included in the government's debt service.

TABLE E.27

Interest on the retirement plans liability
(millions of dollars)

	2013-2014
Interest on the actuarial obligations relating to the retirement plans[1]	5 353
Less: Investment income of the RPSF	–1 989
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 364**

(1) Net of the income of specific funds of the plans.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting, in accordance with generally accepted accounting principles (GAAP).

> When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.[6]

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[6] CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on realized returns. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[7]

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 14 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[8] This amortization mechanism and the period used are prescribed by GAAP.[9]

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[7] Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

[8] As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 10 years compared with 15 years under the other plans.

[9] "...actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, CPA Canada defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

4. CREDIT RATINGS

4.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, the public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE E.28

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1 **Aa2** Aa3	AA+ AA AA–	AA (high) AA AA (low)	AA+ AA **AA–**	**AA+** AA AA–
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1 A2 A3	**A+** A A–	**A (high)** A A (low)	A+ A A–	A+ A A–
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1 Baa2 Baa3	BBB+ BBB BBB–	BBB (high) BBB BBB (low)	BBB+ BBB BBB–	BBB+ BBB BBB–
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1 Ba2 Ba3	BB+ BB BB–	BB (high) BB BB (low)	BB+ BB BB–	BB+ BB BB–
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1 B2 B3	B+ B B–	B (high) B B (low)	B+ B B–	B+ B B–

Agencies add an "outlook" to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a "stable" outlook to its credit rating, except for Fitch which has assigned a "negative" outlook since December 2013, following the postponement of the return to a balanced budget to 2015-2016, announced in November 2013.

TABLE E.29

The Québec government's credit ratings

Credit Rating Agency	Credit Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Negative
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE E.30

Credit rating scales for short-term debt(1)

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P–1**	**A–1+** A–1	R–1 (high) **R–1 (middle)** R–1 (low)	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P–2	A–2	R–2 (high)	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P–3	A–3	R–2 (middle) R–2 (low) R–3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime(2)	B–1 B–2 B–3 C	R–4 R–5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime(2)	D	D	D

(1) JCR does not assign a short-term credit rating to Québec.
(2) Moody's uses the "Not Prime" category for all securities not included in the upper categories.

❑ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2015 are those in effect as at March 17, 2015.

CHART E.16

Credit rating assigned to Québec by Moody's

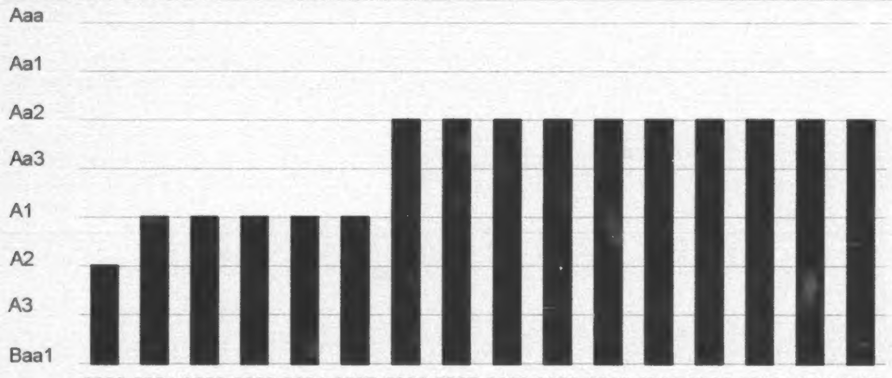


CHART E.17

Credit rating assigned to Québec by Standard & Poor's

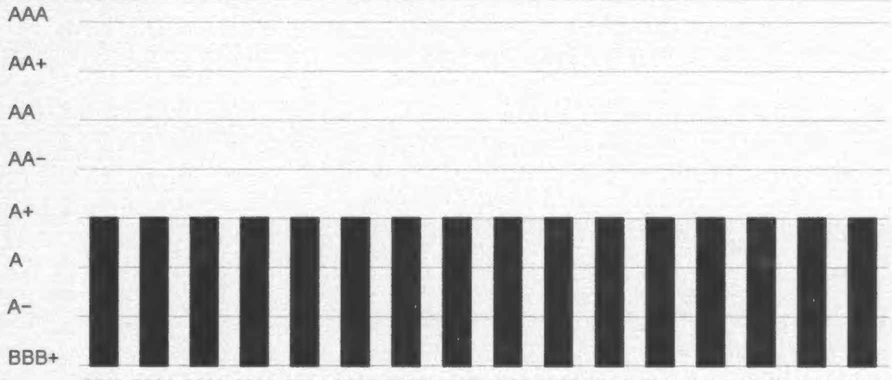
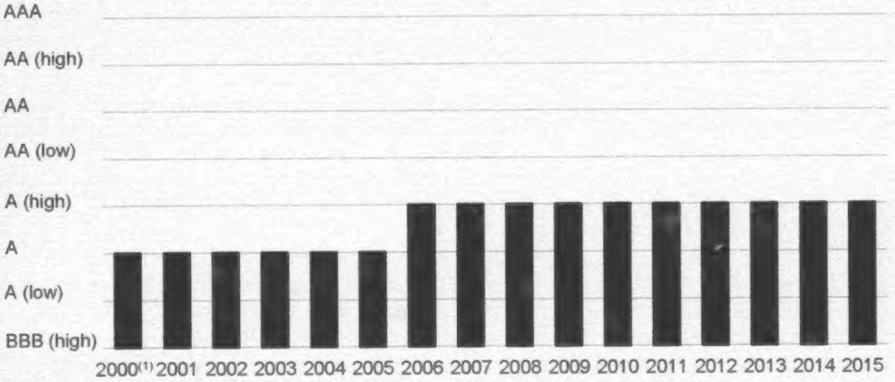


CHART E.18

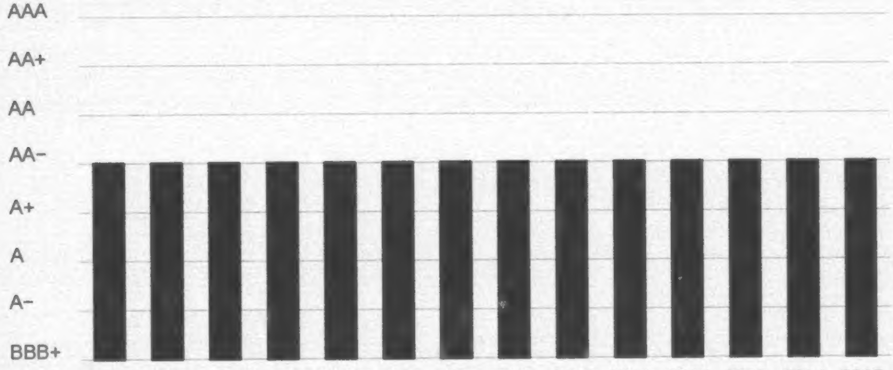
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART E.19

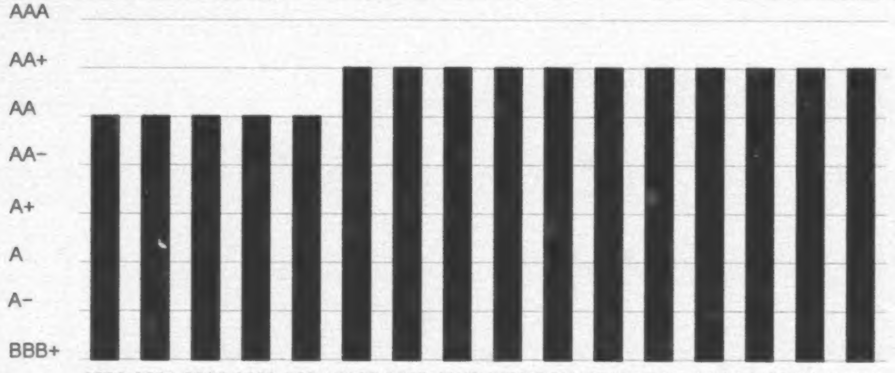
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART E.20

Credit rating assigned to Québec by JCR

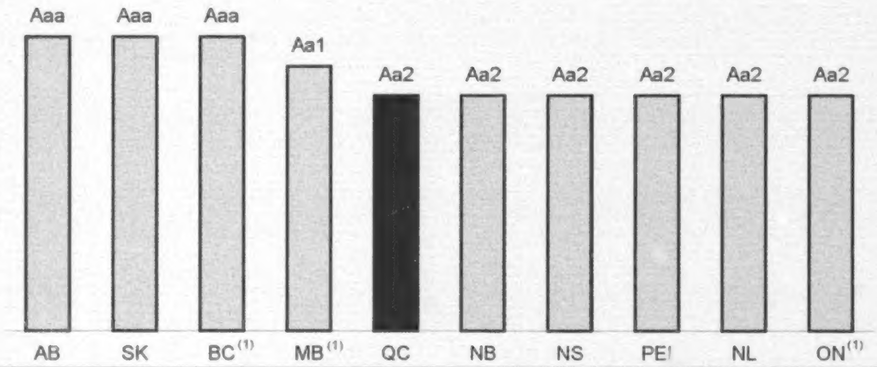


4.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces as at March 17, 2015. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART E.21

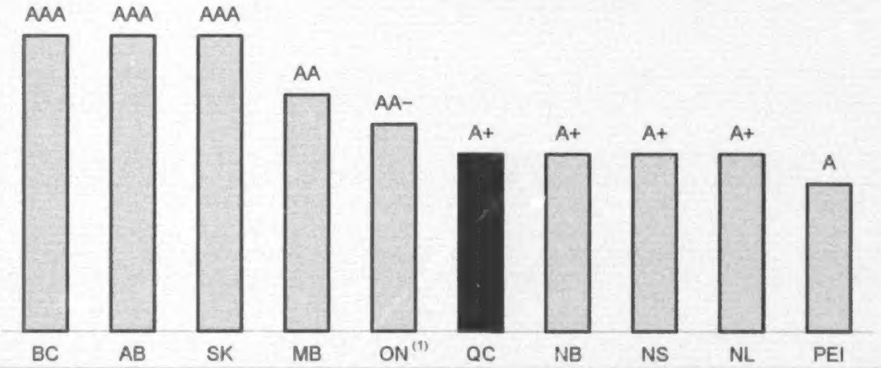
Credit rating of the Canadian provinces – Moody's



(1) Negative outlook.

CHART E.22

Credit rating of the Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART E.23

Credit rating of the Canadian provinces – DBRS

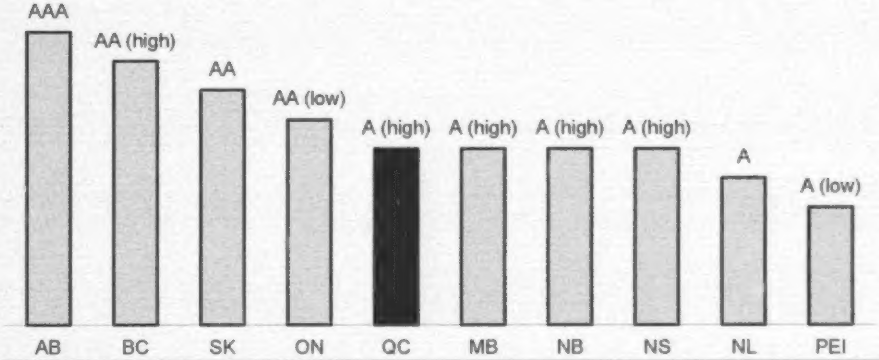
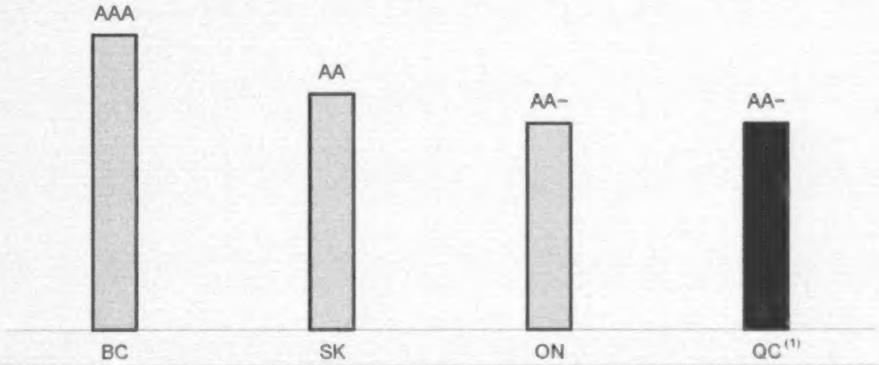


CHART E.24

Credit rating of the Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.

(1) Negative outlook.

Section F

UPDATE ON FEDERAL TRANSFERS

Introduction **F.3**

1. Realities regarding the federal government **F.5**

  1.1 Ensuring adequate funding for health in a context of population aging F.5

  1.2 Fair sharing of infrastructure investment F.8

2. An equalization program that must fully play its role **F.15**

  2.1 The equalization program must achieve its objective F.15

  2.2 A gradual return to the historical average F.19

3. Other issues to be settled with the federal government **F.21**

  3.1 A favourable settlement for Québec regarding revenue stabilization F.21

  3.2 Treatment of Hydro-Québec's dividends under the equalization program F.21

  3.3 Gradual increase in federal funding for social programs F.22

Conclusion **F.25**

INTRODUCTION

The provinces are deploying considerable efforts to achieve fiscal balance by making tough, but necessary choices to put their public finances in order. This exercise is all the more difficult because it is being carried out in a context where the provinces have to contend with growing health care spending and the need to invest in infrastructure. Therefore, just like provinces that cannot avoid calling certain things into question, the federal government cannot ignore, in the decisions it makes, the considerable efforts being made by the provinces.

— With respect to health care, population aging, coupled with a decline in the potential labour pool, continues to exert strong financial pressure. In that regard, the federal government must act as a partner, for the benefit of the population. Therefore, Québec is asking the federal government to gradually increase the Canada Health Transfer (CHT) envelope so that it represents 25% of the provinces' health spending and to allocate the envelope so as to take into account the proportion of people aged 65 and over in each province.

— With respect to infrastructure, the provinces have to devote considerable sums to maintaining it. Indeed, they invest roughly three times more than the federal government in public infrastructure, whereas the federal government receives a share of the revenue generated by the economic activity resulting from these investments that is equivalent to the share received by the provinces. Therefore, the federal government must contribute more to funding provincial infrastructures by gradually increasing its investments in order to foster the country's long-term economic growth.

Moreover, owing to the caps imposed unilaterally on the equalization program by the federal government in 2008, the disparities between the fiscal capacity of the recipient provinces and the average of the ten provinces have not been fully offset by the equalization program over the past seven years, which is contrary to the program's objective. Changes must therefore be made to enable the program to fully play its role.

Lastly, certain other files are still pending with the federal government, and Québec would like them to be resolved in the near future.

— Moreover, Québec intends to enter into discussions with the federal government on some of the recommendations in the report by the Québec Taxation Review Committee, particularly in regard to the fight against tax evasion, e-commerce and the tax regime applicable to capital gains and stock options.

1. REALITIES REGARDING THE FEDERAL GOVERNMENT

While the federal government will post recurring budget surpluses in 2016-2017 and subsequent years, due in particular to the decline in the growth of the Canada Health Transfer (CHT) as of 2017-2018, many provinces will face major challenges in their efforts to achieve and maintain a balanced budget.

Therefore, the federal government must further commit to sharing the provinces' financial pressures in regard to social programs and infrastructure, in a context where federal surpluses are on the horizon.

1.1 Ensuring adequate funding for health in a context of population aging

While health spending is a major issue for many provinces in a context where the population is aging and its expectations regarding the accessibility and quality of health care are increasingly higher, the federal government announced unilaterally in December 2011 important changes to the provinces' CHT revenues.

- Since 2014-2015, the CHT has not taken into account the value of tax points transferred to the provinces in 1977. It should be noted that the previous formula enabled those provinces for which the value of their tax points was lower to receive higher cash transfers. For Québec, this change to allocation of the CHT on an equal per capita basis represent losses estimated at nearly $2.1 billion for the period from 2014-2015 to 2024-2025, including $174 million in 2015-2016.

- From 2017-2018 to 2024-2025, growth of the CHT envelope will be tied to that of Canada's nominal GDP, subject to a floor of 3%, instead of the current growth rate of 6% per year. This disengagement on the part of the federal government in health will enable it to achieve savings of nearly $32.6 billion between 2017-2018 and 2024-2025, while it assumes less than 25% of the provinces' health spending. For Québec, the losses are estimated at more than $7.3 billion for the same period.

Many studies assert that limiting growth of the CHT to that of Canada's nominal GDP will be insufficient to cover the increase in health costs. According to the Conference Board of Canada,[1] a projection based on the trend in health care spending by the provinces and territories over the past 30 years sets the annual average growth in health spending at 5.1% for the period from 2013-2014 to 2034-2035.

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[1] CONFERENCE BOARD OF CANADA, *Canada's Economic and Fiscal Prospects*, August 28, 2014, www.canadaspremiers.ca/en/.

TABLE F.1

Average breakdown of health spending according to the baseline scenario of the Conference Board of Canada, from 2013-2014 to 2034-2035
(per cent)

Population growth	1.1
Inflation in the health care sector	2.3
Impact of population aging	1.0
Increased access to the system and continued improvements in the system	0.7
Annual average growth	**5.1**

Source: Conference Board of Canada.

Also according to this study, Canada's nominal GDP will grow by an average of roughly 3.9% over this same period. Growth of the CHT, limited to that of Canada's nominal GDP, will thus be lower than the growth in health costs.

In addition, according to the *Fiscal Sustainability Report 2014* (FSR 2014) of the Office of the Parliamentary Budget Officer (OPBO):[2]

> By indexing federal funding for health care at the rate of growth of GDP, the federal government has mostly insulated itself from the fiscal impact of an ageing population. But provincial governments, with direct constitutional responsibility for the delivery of health care are unable to do so.

The report also noted that the decline in the growth of the CHT will increase the financial burden of the provinces to the benefit of the federal government's financial situation.

While the federal government financed 50% of eligible health spending during the deployment of public health systems until the mid-1970s, the share of federal funding amounted to only 22.4% in 2013-2014.

— According to the FSR 2014, the CHT is expected to represent an average of 18.1% of spending by the provinces and territories on health during the first 25 years (2013-2038) of the projection horizon.

Therefore, Québec is asking the federal government to gradually increase, over the next ten years, the CHT envelope to a level that represents 25% of the provinces' health spending, i.e. the same level as in 1977, when a "block" transfer was introduced for health and post-secondary education.

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[2] OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, *Fiscal Sustainability Report 2014*, September 30, 2014, p. 2 in Publications, on the PBO-DPB website, www.pbo-dpb.gc.ca/en.

The *Canada Health Act*

In accordance with the *Canada Health Act*, the provinces are required to satisfy five criteria under their public health care insurance plans in order to qualify for the full federal contribution paid through the Canada Health Transfer (CHT).

- **Accessibility**: Insured persons must have reasonable and uniform access to insured health services and not encounter any financial or other obstacles.
- **Comprehensiveness**: The health care insurance plan of a province must cover all medically necessary services, i.e. hospital care, medical services and required surgical-dental procedures that can only be performed in a hospital.
- **Portability**: The provinces are required to cover the insured health services that are provided to their citizens when they are temporarily absent from their province of residence or Canada.
- **Public administration**: Each provincial health care insurance plan must be administered by a non-profit public authority that must report to the provincial government on its financial transactions.
- **Universality**: All residents of a province must have access to public health care insurance and insured services on uniform terms and conditions.

☐ An envelope that must take into account the demographic weight of seniors

The demographic changes now under way are already putting strong financial pressure on health care for many provinces.

— The Atlantic Provinces, followed by Québec, will experience more pronounced population aging.

It costs from five to six times more to care for a person aged 65 and over than for a person under age 65.

— An OECD study[3] has shown that it costs on average six times more to care for a person aged 65 and over.

— A study published in the magazine *Policy Options*[4] noted that it costs on average five times more to care for a person aged 65 and over than for a person under age 65.

The equal per capita allocation of the CHT, in effect since 2014-2015, thus favours provinces with younger populations, at the expense of those where the population is aging more rapidly.

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[3] OECD, *OECD Economic Surveys: Canada – Overview*, June 2012, p. 17.

[4] Jean-Pierre AUBRY, Pierre FORTIN and Luc GODBOUT, "Revoir le transfert fédéral en santé pour tenir compte du poids démographique des aînés", in *Options politiques*, June-July 2012, pp. 102-106.

It should also be noted that provinces where population aging will be more pronounced will also be the ones to witness a decline in their potential pool of workers, which will add to the financial pressure related to aging of the population.

Therefore, Québec is asking the federal government that the CHT take into account the demographic breakdown of people aged 65 and over.

TABLE F.2

Proportion of people aged 65 and over and proportion of the potential pool of workers aged 15 to 64
(per cent)

	Proportion of people aged 65 and over			Proportion of the potential pool of workers		
	2015	**2030**	**Difference**	**2015**	**2030**	**Difference**
Newfoundland and Labrador	18.6	30.5	11.9	67.1	56.7	−10.4
Prince Edward Island	18.4	26.1	7.7	65.9	58.9	−7.0
Nova Scotia	18.9	28.6	9.7	67.1	57.9	−9.2
New Brunswick	19.0	29.0	10.0	66.6	57.4	−9.2
Québec	**17.5**	**24.4**	**6.9**	**66.9**	**59.8**	**−7.1**
Ontario	16.0	23.1	7.1	68.1	61.3	−6.8
Manitoba	14.9	19.8	4.9	66.5	61.5	−5.0
Saskatchewan	14.7	20.3	5.6	66.2	60.2	−6.0
Alberta	11.6	17.3	5.7	70.0	64.1	−5.9
British Columbia	17.4	23.9	6.5	68.0	61.5	−6.5
Canada	**16.1**	**22.8**	**6.7**	**67.8**	**61.1**	**−6.7**

Sources: Statistics Canada and Ministère des Finances du Québec.

1.2 Fair sharing of infrastructure investment

Judicious investment in public infrastructure is essential to economic growth and contributes to prosperity. Reliable and sustainable infrastructure spurs productivity and enables goods to gain rapid access to markets.

☐ Substantial positive spinoffs for the economy

Over the short term, infrastructure investment:

- supports job creation in construction and related sectors;
- helps increase GDP through direct government spending.

Over the long term, infrastructure investment boosts:

- private-sector productivity;
- competitiveness;
- economic growth and quality of life.

In a report published in October 2014,[5] the International Monetary Fund noted that public infrastructure investment in the order of 1% of GDP leads to substantial gains in economic output – gains that represent an annual increase of 2.0% to 2.8% in GDP over ten years.

According to the intersectoral model of the Institut de la statistique du Québec,[6] a $1-billion increase in investment spending by the Québec government leads to the creation or maintenance of nearly 6 600 jobs, including approximately 4 500 direct jobs, and an additional $630-million increase in nominal GDP.

☐ Federal underfunding of provincial infrastructure

Total investment in public infrastructure in Canada currently represents roughly 3.5% of Canada's nominal GDP. According to the Canadian Centre for Economic Analysis,[7] public infrastructure investment should instead amount to about 5% of nominal GDP in order to maximize the global economic benefits and enable the Canadian economy to become more productive.

- More substantial public investment in infrastructure would further foster economic growth and provide jobs, thus enabling governments to increase their revenues to fund public services.

The provinces and the territories invest approximately three times more[8] than the federal government in public infrastructure, whereas the federal government receives a share of the revenue generated[9] by the economic activity resulting from these investments that is equivalent to the share received by the provinces and the territories.

The federal government must contribute more to the funding of provincial and territorial infrastructure by gradually increasing its investments in order to foster Canada's long-term economic growth.

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[5] INTERNATIONAL MONETARY FUND, *World Economic Outlook. Legacies, Clouds, Uncertainties*, October 2014, p. 87-88.

[6] INSTITUT DE LA STATISTIQUE DU QUÉBEC, *Le modèle intersectoriel du Québec : fonctionnement et application*, 2013 edition, in Services, on the ISQ website, www.stat.gouv.qc.ca.

[7] Paul SMETANIN, David STIFF, and Paul KOBAK. *Ontario Infrastructure Investment: Federal and Provincial Risks & Reward*, Canadian Centre for Economic Analysis, 2014.

[8] According to the approach used by the Fiscal Arrangements Working Group of the Council of the Federation, total public infrastructure investment in Canada was estimated at $67 billion in 2013-2014. Of that amount, 46% was funded by the provinces and territories, 40% by municipal governments and 14% by the federal government.

[9] DEPARTMENT OF FINANCE CANADA, *Provincial public accounts – 2013-2014*.

Like the CHT and the Canada Social Transfer, this increase in federal funding for infrastructure should be paid as a permanent "block" transfer rather than under several administrative agreements. This type of transfer would make it possible, in particular, to:

- avoid duplication and delay caused by negotiating multiple agreements;
- simplify the terms of the launch, implementation, monitoring and accountability of projects.

☐ Federal investments that must be made over the short term

As part of its March 2013 budget, the federal government announced the new Building Canada Plan (BCP) for the period 2014-2015 to 2023-2024. This plan follows up on BCP 2007-2014 whose main infrastructure programs ended on March 31, 2014.

- The new BCP has financial assistance of $47.5 billion in new funds over ten years. Québec could receive nearly $8 billion of the amount.

TABLE F.3

Estimated amounts for Québec under the Building Canada Plan, from 2014-2015 to 2023-2024
(millions of dollars)

	Canada	Québec
Gas Tax Fund	**21 800**	**4 995**
Building Canada Fund		
Provincial-Territorial Infrastructure Component	**10 000(1)**	**1 770**
National/Regional Projects Fund	8 678	1 593
Small Communities Fund	964	177
National Infrastructure Component ("on a merit basis")	**4 000(1)**	**924(3)**
P3 Canada Fund ("on a merit basis")	**1 250**	**289(4)**
TOTAL	**37 050(2)**	**7 978**

(1) An amount of $357.6 million under the Provincial-Territorial Infrastructure Component and another of $137.8 million under the National Infrastructure Component will be used by the federal government for management fees.
(2) Including the additional GST rebates for municipalities ($10.4 billion), the new federal infrastructure funds represent $47.5 billion. The total presented in the table does not take the rebates into account since the Québec government cannot access those funds to carry out infrastructure projects.
(3) Québec is asking for its demographic share, which would represent $924 million.
(4) Québec is asking for its demographic share, which would represent $289 million.
Sources: Infrastructure Canada and Ministère des Finances du Québec.

In summer 2013, the federal government indicated that it intended to reach an agreement on the Gas Tax Fund, followed by agreements on the other programs of BCP 2014-2024.

— Negotiations got off to a more productive start in 2014. The Québec government and the federal government announced the conclusion, on June 25, 2014, of an agreement on the Gas Tax Fund 2014-2024. Under this agreement, Québec will receive roughly $5 billion over the next ten years.

Conclusion of the Canada-Québec Administrative Agreement on the Gas Tax Fund 2014-2024

On June 25, 2014, the Québec government and the federal government announced the conclusion of a new agreement on the Gas Tax Fund (GTF) for 2014-2024.

- This ten-year agreement will enable the Québec government, through the Société de financement des infrastructures locales du Québec, to inject about $5 billion in local infrastructure.

To this amount will be added a Québec government contribution of $2.5 billion, including $1 billion derived from the revenue from the additional registration fee for vehicles having a large engine displacement. The remainder, i.e. $1.5 billion, will be provided by the Ministère des Affaires municipales et de l'Occupation du territoire and the Ministère des Transports.

Over the first five years of the agreement, i.e. from 2014-2015 to 2018-2019, slightly over $3.7 billion will be allocated to municipalities and municipal bodies, including nearly $2.4 billion from the Canada-Québec GTF agreement and over $1.3 billion from the Québec government.

As a result of this agreement, Québec municipalities and municipal bodies will receive substantial sums for maintaining and renewing their infrastructure, such as that related to drinking water, waste water, local roads and public transit.

Allocations provided for the funding of local infrastructure, from 2014-2015 to 2018-2019(1)
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Federal government (GTF)	458	458	481	481	504	**2 382**
Québec government	182	203	264	388	316	**1 353**
TOTAL	**640**	**661**	**745**	**869**	**820**	**3 735**

(1) The federal government has not announced the sums available for Québec for the period 2019-2020 to 2023-2024. However, Québec is expected to receive approximately $5 billion over ten years.
Sources: Infrastructure Canada and Ministère des Finances du Québec.

In regard to the Provincial-Territorial Infrastructure Component, which is made up of the Small Communities Fund and the National/Regional Projects Fund, Québec has made known on many occasions that it intends to reach satisfactory agreements that must support projects under the Québec Infrastructure Plan (QIP).

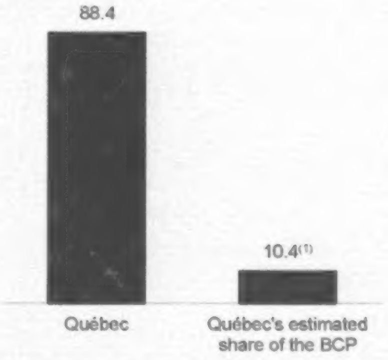
- The Québec government intends to continue discussions with the federal government in order to reach, in the short term, an agreement on the Small Communities Fund that will enable Québec to receive $177 million for infrastructure projects carried out by municipalities with fewer than 100 000 inhabitants.
- In addition, the Québec government is seeking to finalize, in concert with the federal government, a first agreement on the National/Regional Projects Fund.
  - This agreement will serve as a model for all subsequent agreements arising from this fund.
  - To that end, the agreement will be based largely on the clauses already negotiated as part of the agreement on the Small Communities Fund.
- As for the National Infrastructure Component and the P3 Canada Fund, for which funding is allocated "on the basis of merit", Québec expects to receive a fair share of this federal funding, i.e. its demographic share.

The Québec Infrastructure Plan compared to the Building Canada Plan

Whereas Québec will invest $88.4 billion in infrastructure for the period 2015-2025 through the Québec Infrastructure Plan (QIP), the federal government will invest $47.5 billion of new money intended for the provinces under the Building Canada Plan (BCP) 2014-2024, for Canada as a whole.

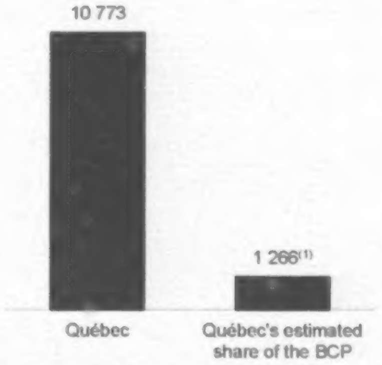
When Québec's infrastructure investments are compared with those of the federal government intended potentially for Québec under the new BCP, it can be noted that Québec will invest over eight times more than the federal government in Québec infrastructure over an equivalent period.[1]

Infrastructure investment over ten years
(billions of dollars)



(1) The total takes into account Québec's demographic share of the P3 Canada Fund, the National Infrastructure Component and the additional GST rebates for municipalities.
Sources: Infrastructure Canada, Statistics Canada and Ministère des Finances du Québec.

Infrastructure investment over ten years
(dollars per capita)



(1) The total takes into account Québec's demographic share of the P3 Canada Fund, the National Infrastructure Component and the additional GST rebates for municipalities.
Sources: Infrastructure Canada, Statistics Canada and Ministère des Finances du Québec.

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[1] This is a comparison of the two infrastructure plans and not a comprehensive overview of public infrastructure investment for only one year as mentioned on page F.9.

2. AN EQUALIZATION PROGRAM THAT MUST FULLY PLAY ITS ROLE

2.1 The equalization program must achieve its objective

An equalization program was put in place by the federal government in 1957 to offset disparities in fiscal capacity to the average of the ten provinces. The objective of the equalization program, enshrined in the Constitution, is to ensure that the provinces are able to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

— Before it was modified in 2008, the equalization program ensured that, after equalization payments were made, each of the recipient provinces had the same fiscal capacity per capita.

However, the equalization program was modified by the federal government in November 2008 without prior consultation of the provinces, and it no longer achieves its objective; over the past seven years, disparities between the fiscal capacity of the recipient provinces and the average of the ten provinces have not been fully offset.

☐ Substantial disparities in the fiscal capacity of the provinces

The capacity to generate revenue varies from province to province, thus leading to considerable disparities in fiscal capacity.

— For example, in 2015-2016, the provinces that do not receive equalization (Newfoundland and Labrador, Saskatchewan, Alberta and British Columbia) will have an own-source fiscal capacity[10] of $10 951 per capita, whereas the recipient provinces will have an own-source fiscal capacity of only $7 347 per capita. There is thus a gap of $3 604 per capita between these two groups of provinces.

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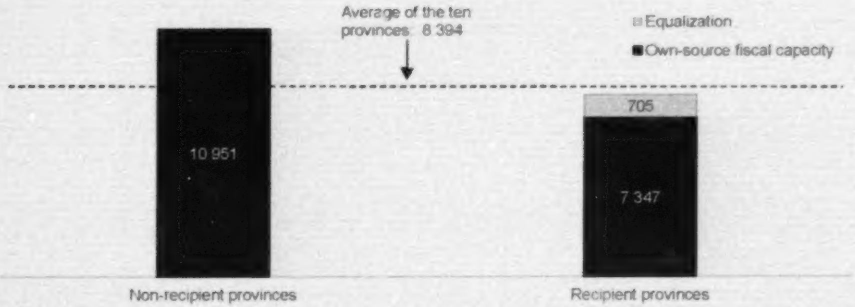
[10] Own-source fiscal capacity includes 100% of revenue derived from natural resources.

CHART F.1

Total fiscal capacity of the provinces(1) – 2015-2016
(dollars per capita)



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(1) Fiscal capacity in 2015-2016 is based on the moving average of fiscal capacity in 2011-2012 (25%), 2012-2013 (25%) and 2013-2014 (50%).

Sources: Department of Finance Canada and Ministère des Finances du Québec.

If equalization payments representing only $705 per capita on average are added to the own-source fiscal capacity of the recipient provinces ($7 347 + $705 = $8 052 per capita), there is still a gap of $342 per capita since equalization offsets only 67% of the gap with the average fiscal capacity of the ten provinces ($8 394 per capita).

Québec's share of equalization

The equalization program is a federal program funded from revenue derived from all Canadian taxpayers, regardless of where they live. Equalization payments are set on a per capita basis. Thus, when the equalization amounts received by Québec in dollars per capita ($1 177) are compared with the amounts received by the other recipients, Québec ranks fifth in 2015-2016.

Québec receives a substantial share of the equalization envelope since it is the most populous province (8.1 million inhabitants) among provinces that receive equalization, after Ontario.

Equalization and population of the recipient provinces – 2015-2016

	A	B	A × B
	$ per capita	Population	Millions $
Prince Edward Island	2 491	144 930	361
New Brunswick	2 208	755 795	1 669
Nova Scotia	1 790	943 700	1 690
Manitoba	1 388	1 252 197	1 738
Québec	**1 177**	**8 091 461**	**9 521**
Ontario	176	13 427 026	2 363
TOTAL	**705**	**24 615 109**	**17 341**

Note: Totals may not add due to rounding.
Source: Department of Finance Canada.

❑ An envelope that is no longer related to changes in the disparities between the provinces

In November 2008, the federal government implemented a cap that distances the equalization program from its objective. Since then, regardless of the gap in fiscal capacity of the recipient provinces compared to the average of the ten provinces, equalization payments correspond to the amount of the equalization envelope that is determined by the growth in Canada's nominal GDP (GDP cap).

The GDP cap thus changes the way the equalization program functions. Instead of bringing the fiscal capacity of the recipient provinces up to the average of the ten provinces like the program set up before November 2008 would have done, the increase in equalization payments of one province occurs at the expense of those of the other recipient provinces.

— The equalization program thus no longer fully bridges the gap between a recipient province's fiscal capacity and the average fiscal capacity of the ten provinces.

— For 2015-2016 alone, the GDP cap will deprive Québec of $569 million.

This GDP gap thus distances the equalization program from its objective. Consequently, it should be removed so that the equalization program can fully achieve its objective, which is to ensure that each province has a fiscal capacity that corresponds to the average of the ten provinces, after equalization.

❑ Return to the 2007 individual cap

In accordance with the recommendation of the report by the Expert Panel on Equalization and Territorial Formula Financing tabled in May 2006,[11] the federal government introduced, in 2007, an equalization program taking into account an individual cap that avoided the situation where the fiscal capacity of a recipient province, after equalization,[12] becomes greater than that of the least "rich" province not receiving equalization.

— After equalization, the recipient provinces thus had the same fiscal capacity.

Despite this recommendation, the federal government replaced, in November 2008, the 2007 individual cap with another individual cap, as a result of which a province receiving equalization that is "richer" than the average of provinces receiving equalization has its fiscal capacity after equalization lowered to the average of those provinces.

— Due to this cap, the equalization envelope is redistributed at the expense of recipient provinces that are better off in terms of natural resources, including Québec. For 2015-2016 alone, this individual cap will generate a shortfall of $850 million for Québec.

— Because of this cap, the recipient provinces no longer have the same fiscal capacity after equalization

In the interests of fairness, a return to the 2007 individual cap is essential so that the recipient provinces could have the same fiscal capacity after equalization.

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[11] EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose: Putting Equalization Back on Track*, [Report], May 2006.

[12] This included 100% of revenue derived from natural resources and protection arising from offshore agreements.

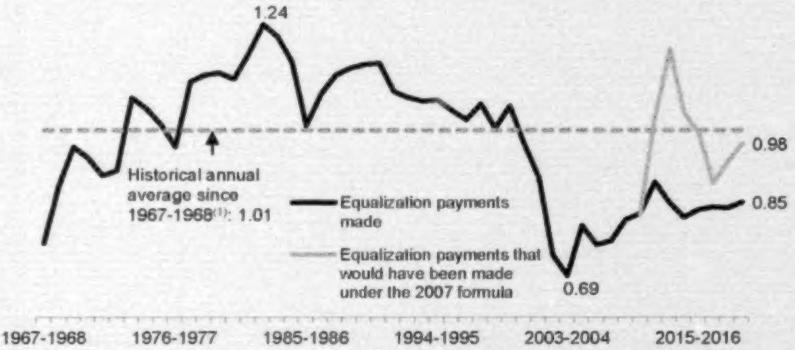
The cost of the equalization program remains below the historical average

To adequately assess the cost of the equalization program, its relative importance as a proportion of Canada's nominal GDP must be determined. Thus, in 2015-2016, the equalization envelope will represent 0.85% of Canada's nominal GDP, whereas the historical annual average from 1967-1968 to 2015-2016 is 1.01%

- This difference represents a shortfall of $3.2 billion in 2015-2016, including nearly $1.1 billion for Québec.

Moreover, it should be noted that if the federal government had maintained the 2007 formula, the cost of the equalization program would have been 0.98% in 2015-2016, i.e. at a level below the historical annual average.

Equalization as a proportion of Canada's nominal GDP
(per cent)



(1) The historical annual average since 1967-1968 is calculated including the equalization payments that would have been paid according to the 2007 formula as of 2009-2010.
Sources: Department of Finance Canada, Statistics Canada and Ministère des Finances du Québec.

2.2 A gradual return to the historical average

Québec is reiterating a proposal that would enable all of the recipient provinces to have the same fiscal capacity per capita after equalization.

Equalization payments determined under the 2007 formula could be reduced by an equal amount of $106 per capita, and still remain consistent with the current equalization envelope, which amounts to $17.3 billion in 2015-2016.

In addition, an increase could be applied annually over ten years to narrow the gap and thus enable the equalization envelope to gradually increase to its historical average of 1.01% of Canada's nominal GDP.

— Such an increase would represent a roughly $320-million increase in the equalization envelope in 2015-2016, i.e. an additional $13 per capita for each recipient province.

TABLE F.4

Québec's proposal regarding the equalization formula – 2015-2016
(dollars per capita)

	Fiscal capacity after equalization					
	Current formula	**2007 formula**	**Fair reduction**	**Fiscal capacity after equalization with fair reduction**	**Impact of a gradual increase** [1]	**Total**
Prince Edward Island	8 017	8 087	−106	7 981	13	7 994
Nova Scotia	8 004	8 087	−106	7 981	13	7 994
New Brunswick	8 015	8 087	−106	7 981	13	7 994
Québec	**7 912**	**8 087**	**−106**	**7 981**	**13**	**7 994**
Ontario	8 017	8 087	−106	7 981	13	7 994
Manitoba	8 015	8 087	−106	7 981	13	7 994

(1) By implementing a gradual increase of 0.016 percentage point per year over ten years, the proportion of the equalization envelope (0.85%) could be restored to its historical annual average of 1.01% of Canada's nominal GDP.

Sources: Department of Finance Canada and Ministère des Finances du Québec.

This proposal would allow the recipient provinces to achieve the same fiscal capacity per capita after equalization ($7 994 per capita) for the first time in seven years.

In addition, the proposal would limit the consequences of a sharp increase in the envelope for the federal government and ensure that the envelope reaches the historical annual average of the cost of the program as a proportion of Canada's nominal GDP (1.01%) by 2025-2026.

3. OTHER ISSUES TO BE SETTLED WITH THE FEDERAL GOVERNMENT

3.1 A favourable settlement for Québec regarding revenue stabilization

In recent years, Québec has raised certain priority issues for which it is requesting fair treatment from the federal government. One of these issues, namely, the settlement of the dispute pertaining to the revenue stabilization program, has just been settled in favour of the Québec government, which thus obtained $103.4 million.

— It should be noted that Québec claimed a stabilization payment from the federal government for 1991-1992, owing to the decline in its revenue compared to the previous year because of the economic situation, a decline that was unrelated to changes made to its tax structure.

— Québec had obtained two judgments in its favour with regard to this issue by the Federal Court and the Federal Court of Appeal in 2007 and 2008 respectively. These judgments sided with Québec on four of the six points in dispute; Québec therefore revised its claim to $103.4 million.

The steps taken by Québec in summer 2014 made it possible to settle this dispute to the satisfaction of both governments. Therefore, it can be hoped that the following priority issues will also be settled in the short term with the federal government.

3.2 Treatment of Hydro-Québec's dividends under the equalization program

In 2008, the federal government decided to exclude the dividends paid by Hydro One, an Ontario government-owned corporation that transmits and distributes electricity, from the natural resources base in the equalization program since this corporation does not produce electricity.

— Hydro One's dividends are thus included in the corporate income tax base.

The dividends paid by Hydro-Québec from its transmission and distribution activities (29.6% of total dividends for 2014) are included in the natural resources base. As a result, there is a difference in the treatment of similar income sources between the two provinces.

— If Hydro-Québec's dividends were included in the same tax base as those of Hydro One, Québec would obtain more than $330 million per year.

Québec demands that the federal government grant fair treatment to Hydro-Québec's dividends in the short term.

3.3 Gradual increase in federal funding for social programs

The purpose of the Canada Social Transfer (CST) is to fund part of the provinces' spending, particularly on post-secondary education and social services. Since 2009-2010, the CST envelope has grown by 3% per year.

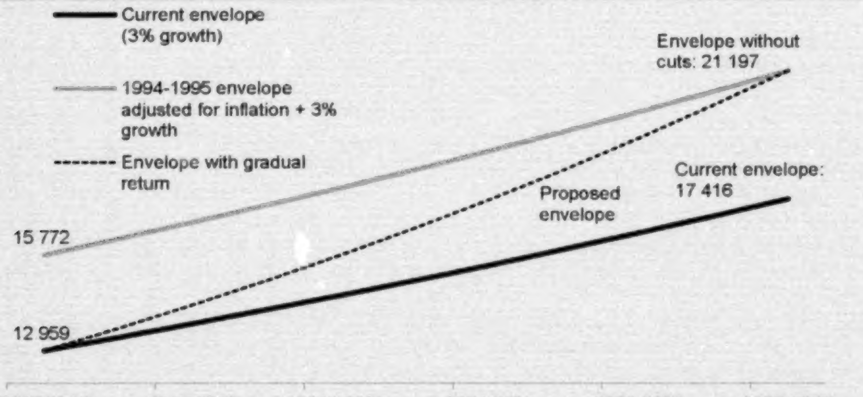
Because of the scope of federal cuts in these areas since the mid-1990s, growth of 3% in the envelope is insufficient to reach the level established before the federal cuts, taking into account inflation.

— In 2005, during its meeting in Banff, Alberta, the Council of the Federation asked the Prime Minister of Canada to immediately restore the CST to its 1994-1995 level, given that the provinces' spending for post-secondary education and vocational training had increased over the preceding ten years.

Accordingly, Québec is asking that the CST envelope be increased to the 1994-1995 level taking into account inflation. However, to avoid a sudden increase of more than $2.8 billion in the envelope in 2015-2016, which corresponds to the difference between the current envelope and the enhanced envelope, Québec is proposing a gradual narrowing of the gap over ten years, as in the case of its proposal regarding equalization and the CHT.

CHART F.2

Gradual return of the Canada Social Transfer to its 1994-1995 level taking into account inflation
(millions of dollars)



Sources: Department of Finance Canada and Ministère des Finances du Québec.

Narrowing the gap in this way would correspond, at term, to an increase of approximately $3.8 billion in the envelope for Canada as a whole, including approximately $855 million for Québec over ten years and $61 million in 2016-2017.

Follow-up to the recommendations of the Québec Taxation Review Committee regarding the federal government

Québec's tax system is harmonized in many respects with the federal tax system and those of the other provinces. This harmonization is intended to simplify the administration of Québec's tax system for taxpayers and businesses, maintain the competitiveness of Québec businesses and avoid double or no taxation.

Therefore, several of the recommendations of the Québec Taxation Review Committee regard the federal government. Coordinated action between the federal government, Québec and the other provinces is essential or desirable in the case of certain recommendations.

Accordingly, Québec will enter into discussions with the federal government and the other provinces on the issues raised by the Committee.

These issues include, in particular:

- the fight against tax evasion, tax avoidance and abusive tax planning, including the use of trusts to shift income to other provinces;
- the tax treatment of transfers of family businesses, in a context where Québec has announced that it will take steps to ensure that this type of transfer will receive tax treatment comparable to that applied to transfers to unrelated third parties;
- the tax regime applicable to capital gains and stock options, to ensure that they are treated fairly compared with other sources of income;
- collection of sales tax and income tax pertaining to e-commerce;
- enhancement of the overall coherence of saving incentives, particularly in regard to Registered Retirement Savings Plans (RRSP) and Tax-Free Savings Accounts (TFSA);
- interprovincial tax competitiveness.

All of these issues would benefit from a coordinated solution on the part of all governments in Canada. However, Québec will not hesitate to act alone, where possible, if it cannot reach an agreement on a common approach with its partners.

CONCLUSION

In a context where the provinces are faced with strong financial pressure resulting from population aging and with the need to make major investments in infrastructure, Québec expects the federal government to act as a partner so that the provinces can adequately address the expectations of the population in these areas and ensure that public services are sustainable.

Therefore, Québec is asking the federal government to:

- gradually increase the Canada Health Transfer envelope over ten years so that it reaches 25% of the provinces' health spending and takes into account the demographic breakdown of people aged 65 and over;
- rapidly reach satisfactory agreements under the Building Canada Plan 2014-2024 that will support projects under the Québec Infrastructure Plan;
- gradually increase the equalization envelope over ten years to its historical level as a proportion of Canada's nominal GDP;
- settle in the short term the differing treatment of the dividends of Hydro-Québec and Hydro One under the equalization program;
- gradually restore over ten years the Canada Social Transfer envelope to its 1994-1995 level taking into account inflation
- collaborate in discussions on certain recommendations of the Québec Taxation Review Committee.

Section G

THE FIGHT AGAINST TAX EVASION

Introduction **G.3**

1. The fight against tax evasion **G.5**

- 1.1 Continuing the fight against tax evasion G.6
  - 1.1.1 Concerted actions to fight tax evasion G.6
  - 1.1.2 Tax audit activities by Revenu Québec G.9
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- 1.3 New initiatives in the construction sector G.14
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2. Loto-Québec: Rising to the challenges of a new reality **G.19**

- 2.1 Curbing illegal online gambling G.20

INTRODUCTION

Public funding of the basket of services that Quebecers have collectively given themselves requires a financial contribution from all taxpayers. The tax system stipulates that everyone must make a fair contribution to this collective effort. Social fairness is also a matter of ensuring that all Quebecers pay their fair share of taxes.

However, the funding of public services is being undermined by tax evasion, which is reducing the government's revenue base. This situation is due, among other things, to changes in the behaviour of individuals that are tied to the development of technology, such as online gaming, and to the desire of certain taxpayers to avoid their tax obligations.

For this reason, the government is making the fight against tax evasion a priority.

This section presents the results of tax recovery activities and the new initiatives being implemented by the government to step up the fight against tax evasion.

1. THE FIGHT AGAINST TAX EVASION

Tax evasion limits the government's ability to assume its obligations toward the population, in addition to having negative repercussions on individuals and businesses. It creates, in particular, unfair competition between businesses that fulfil their obligations and those who do not.

Tax evasion can take various forms:

- unreported work;
- concealment of income;
- unjustified claims for tax benefits, particularly fraudulent claims for Québec sales tax refunds;
- non-payment of collected taxes;
- false invoicing;
- illegal activities such as the illicit trade in tobacco or alcoholic beverages and money laundering.

There is also tax avoidance arising from abusive tax planning.[1]

Tax evasion may be committed through omission or ignorance of tax obligations. However, when it is the result of an intentional act, it is fraud and penal penalties may apply.

Despite the many initiatives implemented in the past several years, tax losses remain high. This situation has prompted the government to continue its efforts to fight tax evasion by introducing new measures.

Accordingly, the government announced in Budget 2014-2015 major measures to fight tax evasion, including:

- the extension of the attestation from Revenu Québec to employment agencies and private construction contracts, slated to come into effect in February 2016;[2]
- the installation, over five months, of sales recording modules in bars and resto-bars, which should begin in September 2015.

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[1] Abusive tax planning occurs when taxpayers take advantage of advantageous provisions of the law by complying with the letter, but not the spirit of such provisions. In so doing, they use a series of measures to unduly reduce their income tax to a minimum. Taxpayers may use offshore accounts, complex corporate structures or profit transfer schemes, and thereby reduce or defer taxes, avoid paying them, or increase the amount of a refund or any other amount they may receive.

[2] The coming into force of these measures is conditional on prior assent to Bill 28: *An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016.*

This budget is also providing for new initiatives to fight tax evasion, including:

- the implementation of an agreement on the sharing of revenue from tax assessments related to criminal activities;
- additional actions in the construction sector;
- the introduction of provisions to counteract planning based on the interposition of a trust or partnership.

1.1 Continuing the fight against tax evasion

Actions to fight tax evasion focus on two main avenues:

- concerted actions by certain government partners;
- tax audit activities by Revenu Québec.

1.1.1 Concerted actions to fight tax evasion

The government has set up several committees that government departments and bodies are cooperating on primarily to carry out joint operations to fight tax evasion in certain at-risk sectors, such as:

- construction and residential renovation;
- the illicit tobacco trade;
- the illicit trade in alcoholic beverages;
- economic and financial crime.

☐ Results of concerted actions

Concerted actions in at-risk sectors are funded in part by the Provision to increase, with the approval of the Conseil du trésor, any appropriation for initiatives concerning revenue under the control of the Ministère des Finances du Québec.

— This funding is for projects to fight tax evasion that require an additional effort compared with the regular activities of various government departments and bodies.

In 2014-2015, the Ministère des Finances du Québec paid $38.7 million for various projects in sectors where tax evasion is likely to occur.

TABLE G.1

Funding by the Provision to increase any appropriation for initiatives concerning revenue
(millions of dollars)

	2014-2015
Construction	6.8
Economic and financial crime	13.5
Alcoholic beverages	5.5
Tobacco	12.9
Other	0.1
TOTAL	**38.7**

Note: Totals may not add due to rounding.
Source: Compilation by the Ministère des Finances du Québec.

Concerted actions carried out with this funding made it possible to recover $321.8 million in taxes and to apply penalties leading to fines of $36.1 million between April 1 and December 31, 2014.

TABLE G.2

Summary of concerted actions as at December 31, 2014
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015 (9 months)
Tax component – Tax recovery[1]				
Construction	314.7	402.3	396.7	289.5
Illicit tobacco trade	8.6	4.7	22.9	27.7
Illicit trade in alcoholic beverages	1.7	5.7	9.4	n/a
Economic and financial crime	24.9	2.1	2.3	4.6
TOTAL TAX RECOVERY	**349.9**	**414.8**	**431.3**	**321.8**
Penal component – Fines				
Construction	4.6	4.8	5.0	5.3
Illicit tobacco trade	30.8	34.7	37.4	30.2
Illicit trade in alcoholic beverages	0.9	0.9	0.7	n/a
Economic and financial crime	2.4	2.3	6.6	0.6
TOTAL FINES	**38.7**	**42.7**	**49.7**	**36.1**

(1) These amounts are included in the results of Revenu Québec's tax recovery activities presented in Section 1.1.2 of Section G of this document.

Sources: Bureau des infractions et amendes, Revenu Québec and Ministère de la Sécurité publique du Québec. Compilation by the Ministère des Finances du Québec.

In addition to monetary results, concerted actions have had a notable effect on various aspects of the fight against tax evasion by:

- making it possible to intercept contraband tobacco products and alcohol;
- helping to dismantle illegal supply networks;
- reducing unfair competition;
- helping to change taxpayers' behaviour in regard to their tax obligations;
- protecting the integrity of Québec's tax system.

The government plans to grant total financing of $47.4 million in 2015-2016 to continue efforts in these sectors and to fund the projects announced in Budget 2014-2015.

1.1.2 Tax audit activities by Revenu Québec

The chief mission of Revenu Québec is to collect revenue owing to the government.

To ensure that taxpayers pay their fair share of funding for public services, Revenu Québec has made the fight against tax evasion one of its priorities.

☐ Revenu Québec's tax recovery activities

In recent years, Revenu Québec has been asked to make substantial tax recovery efforts. This situation has led to an increase in the number of staff at Revenu Québec, particularly in tax auditing, and to the implementation of new projects to fight tax evasion. These efforts have resulted in a significant increase in tax recovery since 2010-2011.

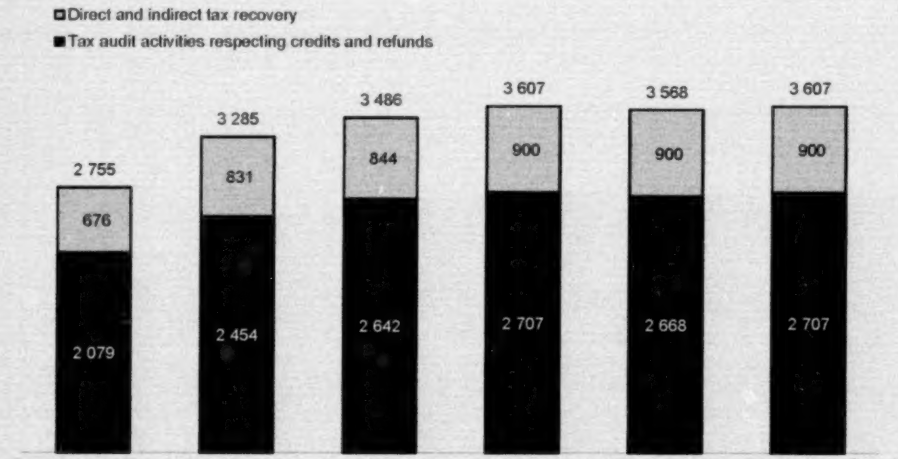
Now that the deployment of these projects has been completed, Revenu Québec's objective will be to maintain tax recovery at a level similar to that forecast in 2014-2015. This level has been adjusted downward by $200 million compared with the target published in Budget 2014-2015.

Accordingly, the total tax recovery objective is $3.6 billion in 2015-2016, i.e. $39 million more than in 2014-2015.

- Direct and indirect tax recovery should total $2.7 billion.
- Tax audit activities respecting credits and refunds should total $900 million.

CHART G.1

Tax recovery results and objectives
(millions of dollars)



R: Results.
P: Preliminary results.
O: Objectives.
Note: To better reflect Revenu Québec's ongoing operations, exceptional factors in 2013-2014 and 2014-2015 have been excluded from results, making it possible to better appreciate the tax recovery objectives in 2015-2016.
Sources: Revenu Québec and Ministère des Finances du Québec.

1.2 Agreement on the sharing of revenue from tax assessments related to criminal activities

The government is announcing the implementation of an agreement on the sharing of revenue from tax assessments related to criminal activities.

This agreement will facilitate in particular the sharing of information between Revenu Québec and police forces. After receiving information from the police, Revenu Québec will be able to issue notices of assessment regarding revenue linked to criminal activities.

- All of the income of a taxpayer or a business is taxable, regardless of whether this income is from legal activities or not.
- Similarly, transactions relating to goods and services are usually taxable, regardless of whether they are conducted in a legal or illegal context.

These tax assessments will act as a deterrent against crime and criminal networks by reducing the financial benefits of criminal activities.

In addition, up to a maximum level to be determined at a later time on the basis of the results observed, the sums recovered by Revenu Québec will be shared as follows:

- 50% for the Ministère de la Sécurité publique du Québec to encourage collaboration and the sharing of police information leading to the issue of notices of assessment;
- 25% for Québec's Justice portfolio to boost management capacity in penal court cases:
  - reducing delays in case management makes it possible, among other things, to increase tax recovery by Revenu Québec;
- 25% for the Ministère des Finances du Québec to fund new projects to fight tax evasion.

In 2015-2016, the government plans to share up to $4 million from the Contingency Fund.

- The amount to be shared annually will correspond to the sums received by Revenu Québec during the previous fiscal year.
  - Revenu Québec has opened 95 files and issued notices of assessment for 46 of them.
  - In February 2015, Revenu Québec had already received $1.5 million.

Two complementary sharing agreements

The agreement on the sharing of revenue from tax assessments related to criminal activities will complement the agreement on the sharing of the proceeds of crime that has been in effect since 1999. The two agreements will make it possible to recover money and property obtained illegally or through illegal activities.[1]

Agreement on the sharing of the proceeds of crime

The sharing agreement implemented in 1999 concerns property contemplated in section 24 of the *Act respecting the forfeiture, administration and appropriation of proceeds and instruments of unlawful activity*.[2]

The purpose of this Act is to ensure that people who have used or obtained property and income in carrying out illegal activities cannot keep these benefits.

A conviction in criminal court is required for proceeds to be forfeited. In fact, a court can make a forfeiture application only if it is convinced that the property concerned corresponds to proceeds or an instrument of unlawful activity.

Agreement on the sharing of revenue from tax assessments related to criminal activities

The sharing agreement announced in this budget concerns sums collected by Revenu Québec following the issue of notices of assessment determined using information received from police forces and processed under the *Tax Administration Act*.[3] Therefore, no criminal conviction is required.

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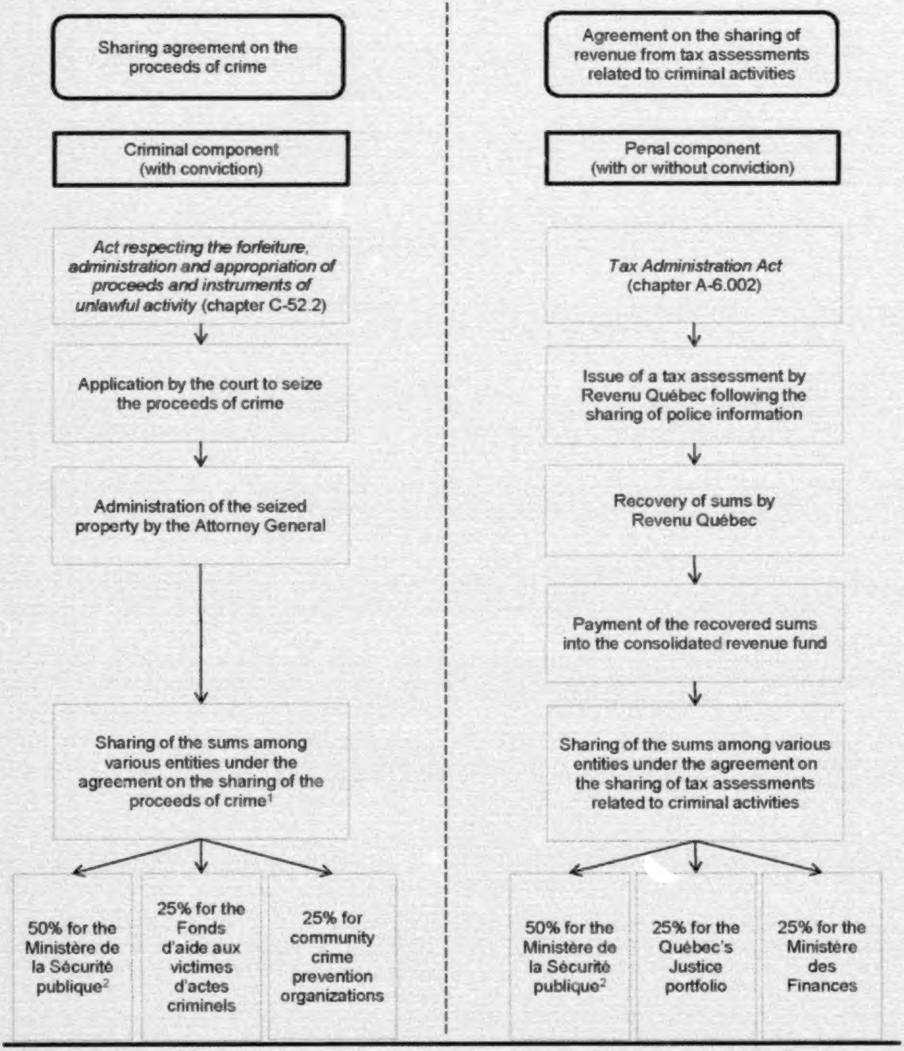
[1] The sale and distribution of drugs and procuring activities are examples of criminal activities that may be covered by the two sharing agreements.

[2] CQLR, chapter C-52.2.

[3] CQLR, chapter A-6.002.

CHART G.2

Sharing agreements


Sharing agreement on the proceeds of crime
Criminal component (with conviction)
Act respecting the forfeiture, administration and appropriation of proceeds and instruments of unlawful activity (chapter C-52.2)
Application by the court to seize the proceeds of crime
Administration of the seized property by the Attorney General
Sharing of the sums among various entities under the agreement on the sharing of the proceeds of crime[1]
50% for the Ministère de la Sécurité publique[2]
25% for the Fonds d'aide aux victimes d'actes criminels
25% for community crime prevention organizations
Agreement on the sharing of revenue from tax assessments related to criminal activities
Penal component (with or without conviction)
Tax Administration Act (chapter A-6.002)
Issue of a tax assessment by Revenu Québec following the sharing of police information
Recovery of sums by Revenu Québec
Payment of the recovered sums into the consolidated revenue fund
Sharing of the sums among various entities under the agreement on the sharing of tax assessments related to criminal activities
50% for the Ministère de la Sécurité publique[2]
25% for the Québec's Justice portfolio
25% for the Ministère des Finances

(1) Up to $5 million. Fifty per cent of any excess amount of such proceeds is paid into the Consolidated Revenue Fund and 50% to municipal bodies, including police forces that took part in the operations.

(2) For redistribution to police forces that took part in the operations.

Source: Ministère des Finances du Québec.

1.3 New initiatives in the construction sector

The construction sector is the sector where tax losses are the highest. They are estimated at $1.5 billion annually by Revenu Québec and the Ministère des Finances du Québec.

Many projects have been implemented in recent years to curb tax evasion in the construction sector, in particular:

- the attestation from Revenu Québec in order to obtain public contracts;
- the extension of the attestation to employment agencies and private construction contracts;
- the sustained presence of Revenu Québec on major construction sites.

Accordingly, the government is continuing its efforts to fight tax evasion in the construction sector by:

- redirecting the work of the ACCES construction committee;
- tightening verification of requirements for holding a contractor's licence;
- conducting a consumer awareness campaign.

❑ Repositioning of the ACCES construction committee

Despite the many initiatives implemented in recent years, tax evasion, money laundering, collusion and corruption persist in the construction sector.

To consolidate the actions taken thus far, the government is proposing to strengthen collaboration between the main ACCES construction partners. This work will aim to improve the exchange of information between organizations and to develop the monitoring tools needed to further curb tax evasion.

The government will thus be able to better fight tax evasion and the complex situations faced by ACCES construction partners.

❑ Tighter verification of requirements for holding a contractor's licence

In Québec's construction sector, a contractor must hold a licence issued in accordance with the *Building Act*.[3] This licence is necessary to carry out or have carried out construction work in Québec or to submit a tender bid for such work. Québec has nearly 46 000 contractor licence holders.

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[3] CQLR, chapter B-1.1.

Several conditions must be met to obtain or maintain a contractor's licence.

Every year, the Régie du bâtiment du Québec carries out nearly 22 000 requirement verifications upon the issue or maintenance of a contractor's licence. Nevertheless, some contractors indicate a head office address that does not actually correspond to their real address. In particular, they may indicate a post office box or an address of convenience.

- This practice may hide the use of an officer of convenience or a nominee. The purpose of this officer may be, in particular, to provide the level of probity required[4] to obtain or maintain a contractor's licence.

- The use of addresses of convenience is a well-known problem that is the focus of audits by Revenu Québec, particularly following Québec sales tax registration.

The government is announcing that the Régie du bâtiment du Québec is tightening its mechanisms for verifying the head office addresses of contractors and validating the officers declared in applying for the issue or maintenance of a contractor's licence.

For 2015-2016, roughly 2 400 additional interventions will be carried out in certain regions of Québec with these new mechanisms.

- If any requirements are not met, administrative procedures leading to the suspension or cancellation of licences will be undertaken. In addition, fines of $1 076 to $16 134 may be claimed in the case of false statements.

- The results of such verifications will be shared with Revenu Québec so that tax interventions can be carried out, if necessary. Such information exchange reflects the new direction that the government wants to give to ACCES construction.

As a result, the Régie du bâtiment du Québec will be able to:

- perform more administrative verifications without increasing obligations for contractors;

- better manage the risks related to the holders of contractor licences;

- generate self-regulation of non-compliance situations;

- help to clean up the construction sector.

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[4] The probity required corresponds in particular to compliance with laws and regulations, honesty and respect for clients, and practices that reflect constant concern for public safety.

❑ Consumer awareness campaign

Some consumers tend to hire unlicensed contractors in order to cut down on the cost of construction work. They believe that they will save money by hiring this type of contractor and not signing a contract. However, this is often not the case.

Consumers run major risks by exposing themselves to the additional costs that can be generated by work that is poorly executed and against which they have no protection. Not having a contract often leads to numerous problems when the work is being carried out and adds to the lack of financial guarantees that comes with dealing with a contractor without a licence.

- The financial guarantees derived from security or from the guarantee plan for new residential buildings protects consumers, particularly in the case of construction defects, poor workmanship and non-compliance with the obligations in a contract.

The government is announcing that the Régie du bâtiment du Québec will conduct an awareness campaign aimed directly at potential clients of unlicensed contractors to promote the protections associated with a licence, namely, financial guarantees and a contract.

Accordingly, the Régie du bâtiment du Québec aims to:

- raise consumer awareness about the importance of entrusting construction work to a licensed contractor;
- ensure that consumers value the contractor's licence;
- attach importance to consumer protection.

Furthermore, the campaign will be an additional tool in the fight against tax evasion, primarily in the residential renovation sector.

1.4 Counteracting planning based on the interposition of a trust or partnership

To support and direct Québec's economic development and promote Québec's cultural identity, the government has brought in various tax assistance measures.

These preferential tax measures are generally in the form of refundable tax credits and sometimes in the form of non-refundable tax credits.

The legislation contains several integrity rules whose purpose is to ensure the achievement of the government's objectives by adequately targeting the businesses and activities covered by such tax measures.

However, planning that involves the interposition of a trust or partnership can sometimes, while satisfying the letter of the law, abuses its spirit and purpose.

To counteract legal structures involving the interposition of a trust or partnership that can prevent the integrity rules pertaining to preferential tax measures from achieving the objective underlying their implementation, a new, general integrity rule will be introduced.

More specifically, a trust or partnership will be deemed to have the attributes of a corporation for the purposes of the integrity rules pertaining to preferential tax measures, whether to determine eligibility for one of the measures or to determine a specific condition, such as the level of tax assistance.

These changes will apply to a taxation year ending after the day of the Budget Speech.

2. LOTO-QUÉBEC: RISING TO THE CHALLENGES OF A NEW REALITY

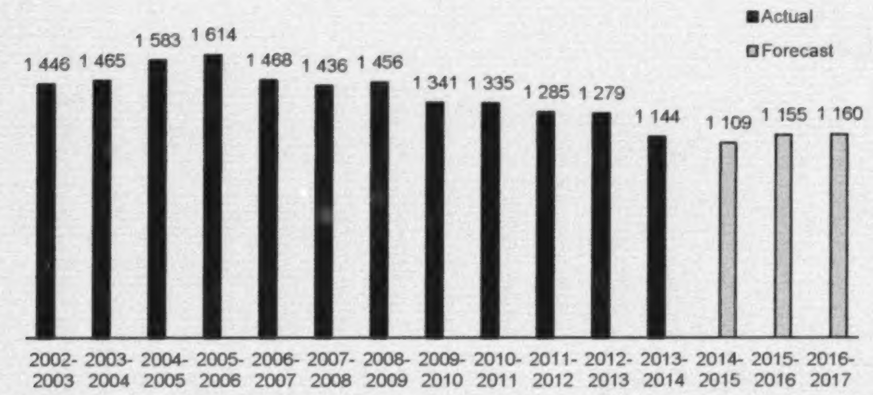
The environment in which Loto-Québec carries out its activities in order to fulfil its mission has changed significantly over the past decade. After several years of sustained growth, most of the products offered by Loto-Québec have now reached maturity. In addition, the population's gaming habits have changed considerably.

Indeed, the number of Quebecers who engage in gaming and gambling is on the decline. From 2002 to 2012, the proportion of adult Quebecers who participated in such activities fell from 81% to 67%.[5] Over the same period, the average annual expenditure of a Canadian adult on gaming decreased from $613 to $505.[6] It is only the online gaming market that has growth prospects. Revenue from online gaming in Québec rose from $50 million in 2006 to $80 million in 2009 and $250 million in 2012.

These major changes have led to lower revenues for Loto-Québec. From 2005-2006 to 2013-2014, Loto-Québec's net results declined by an average of 4.2% per year.

CHART G.3

Change in Loto-Québec's net results(1)
(millions of dollars)



(1) Excluding contributions by Loto-Québec paid into the Assistance Fund for Independent Community Action and to a number of the government's specified-purpose accounts and the performance of measures to curb illegal online gambling.
Source: Loto-Québec.

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[5] Sylvia KAIROUZ, Louise NADEAU and Chantal ROBILLARD, *ENHJEU-Québec Survey, Portrait of gambling in Quebec: Prevalence, incidence and trajectories over four years.* February 19, 2014.

[6] Statistics Canada, tables 051-0001 and 380-0085 (in constant 2007 dollars), CANSIM.

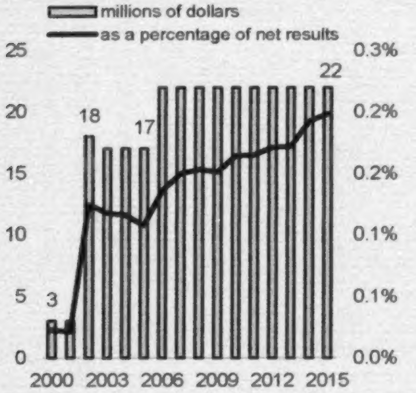
Loto-Québec's mission is, among others, to responsibly manage the gaming and gambling offering and, to that end, it invests in public health protection programs put in place in regard to gambling. For example, Loto-Québec's contribution to the funding of pathological gambling programs has grown over the past 15 years, reaching $22 million in 2014-2015. This represents 2% of Loto-Québec's net results.

The results of the efforts being deployed speak for themselves: Québec is the province with the lowest proportion of pathological gamblers in Canada, i.e. 0.4% of the adult population.

CHART G.4

Loto-Québec's contribution to the funding of pathological gambling programs

(millions of dollars and per cent)

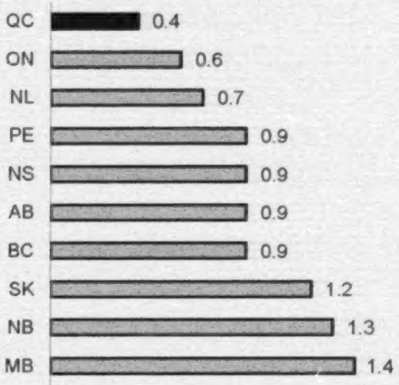


Source: Ministère des Finances du Québec.

CHART G.5

Prevalence rate – Pathological gamblers

(percentage of the adult population)



Source: *Canadian Gambling Digest*, 2012-2013, July 2014.

To enable Loto-Québec to rise to the challenges posed by this new reality, the government will introduce measures to curb illegal online gambling.

2.1 Curbing illegal online gambling

In the report it tabled in November 2014, the Working Group on Online Gambling noted that the objectives set at the time of the creation of Espacejeux, Loto-Québec's online gaming website, had not been met. Despite the opening of this legal and secure website operated by Loto-Québec, the number of illegal sites has not decreased and Quebecers continue to visit them in large numbers.

The findings of the working group led it to conclude that the government should review its approach to illegal online gambling, especially by implementing a coordinated set of measures to curb it.

With a view to public health and in order to further channel the revenues that escape the government, three of the measures recommended by the working group will be implemented during the next fiscal year.

- A legislative amendment will be proposed to introduce an illegal website filtering measure. In accordance with this measure, Internet service providers will not be allowed to provide access to an online gaming and gambling website whose name is on a list of websites that are to be blocked, drawn up by Loto-Québec. This measure will be applied by the Régie des alcools, des courses et des jeux, which should have the necessary resources to fulfil its new responsibilities.
- In addition, Loto-Québec will develop a portal to increase the ability of Espacejeux, the only legal online gaming site in Québec, to attract players. Loto-Québec will operate games on this portal offered by private operators. To become a supplier of a game offered on the portal, operators will have to enter into an agreement with Loto-Québec, who will become the exclusive operator of the online game of chance or gambling game in Québec.
- Moreover, in accordance with the recommendations of the working group. Loto-Québec will inform Quebecers about the legislation governing online gaming through multimedia campaigns.

Illegal websites do not apply the same responsible gaming rules as Espacejeux. They thus pose a risk to the population, especially young people. Moreover, private operators who wish to offer games on the Espacejeux portal will have to comply with Loto-Québec's high standards regarding responsible gaming measures.

In addition, the measures announced will enable the government to recover revenues that are escaping it and to fund public services for the benefit of all Quebecers. These three measures will increase the dividend that Loto-Québec pays to the government by $13.5 million in 2016-2017 and $27.0 million a year thereafter.

Report of the Working Group on Online Gambling

The Working Group on Online Gambling was set up in July 2010 by the Minister of Finance. Its mandate was to analyze the social impact of the development of online gambling and to examine regulatory, technical, economic and legal measures in order to counter illegal online gambling. The working group's final report was tabled in November 2014.

The working group pointed out in its report that none of the concerns expressed by public health care workers had materialized following the creation of Loto-Québec's Espacejeux website. It specified that no increase in the number of players, at-risk behaviour and problems linked to online gambling had been observed.

As for channeling players to the legal website, the working group noted that the desired outcome had not been achieved with Espacejeux. The number of illegal sites has not decreased and Quebecers continue to visit them in large numbers.

These findings led the working group to conclude that the government should review its approach to online gambling. The working group recommended that Canada's *Criminal Code* be amended to enable the implementation of a licensing system to regulate the activities of online game operators. It also recommended the creation of a portal through which private operators' games could be proposed.

In addition, the working group indicated that effective control of online gambling requires the implementation of a coordinated set of complementary measures. It recommended that the government diversify its actions since Espacejeux was not able to curb illegal online gambling.

The working group proposed in particular an illegal website filtering measure and information and awareness-raising campaigns for the population on the legislation governing online gambling.

Source: Louise Nadeau, Magali Dufour, Richard Guay, Sylvia Kairouz, Jean-Marc Ménard and Catherine Paradis, *Online Gambling – When the Reality of the Virtual Catches up With Us – Report of the Working Group on Online Gambling*, Gouvernement du Québec, 2014.